

DECKERS OUTDOOR CORP  
Form 10-K  
June 01, 2015

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 March 31, 2015

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

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

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 past 90 days. Yes  No

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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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, 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.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer (Do not check if a smaller reporting company) <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of September 30, 2014, the last business day of our most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting stock held by the non-affiliates of the registrant was approximately \$3,280,043,169, based on the number of shares held by non-affiliates of the registrant as of that date, and the last reported sale price of the registrant's common stock on The New York Stock Exchange (NYSE) on that date, which was \$97.18. This calculation does not reflect a determination that persons are affiliates for any other purposes. The number of shares of the registrant's Common Stock outstanding at May 15, 2015 was 33,296,968.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement on Schedule 14A relating to the registrant's 2015 annual meeting of stockholders, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, are incorporated by reference into Part III of this Annual Report on Form 10-K. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement and related proxy solicitation materials are not deemed to be filed as part of this Annual Report on Form 10-K.

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DECKERS OUTDOOR CORPORATION  
 For the Fiscal Year Ended March 31, 2015  
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, and the information and documents incorporated by reference in this Annual Report on Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements are subject to considerable risks and uncertainties. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements other than statements of historical fact contained in, or incorporated by reference into, this Annual Report on Form 10-K, including statements regarding our future or assumed condition, results of operations, business plans and strategies, competitive position and market opportunities. We have attempted to identify forward-looking statements by using words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "will," or "would," and similar expressions or the negative of these expressions. Specifically, this Annual Report on Form 10-K and the information and documents incorporated by reference in this Annual Report on Form 10-K contains forward-looking statements relating to, among other things:

- our global business, growth, operating, investing, and financing strategies;
- our product offerings, distribution channels and geographic mix;
- the success of our new products, brands, and growth initiatives;
- the impact of seasonality on our operations;
- expectations regarding our net sales and earnings growth and other financial metrics;
- our development of worldwide distribution channels;
- trends affecting our financial condition, results of operations, or cash flows;
- our expectations for expansion of our retail and E-Commerce capabilities;
- information security and privacy of customer, employee or company information;
- overall global economic trends;
- reliability of overseas factory production and storage; and
- the availability and cost of raw materials.

Forward-looking statements represent our management's current expectations and predictions about trends affecting our business and industry and are based on information available at the time such statements are made. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy or completeness. Forward-looking statements involve numerous known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements predicted, assumed or implied by the forward-looking statements. Some of the risks and uncertainties that may cause our actual results to materially differ from those expressed or implied by these forward-looking statements are described in the section entitled "Risk Factors" Part I, Item 1A of this Annual Report on Form 10-K, as well as in our other filings with the Securities and Exchange Commission (SEC). Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. You should read this Annual Report on Form 10-K, in its entirety and with the understanding that our actual future results may be materially different from the results expressed or implied by these forward-looking statements.

Moreover, we operate in an evolving environment. New risks and uncertainties emerge from time to time and it is not possible for our management to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause our actual future results to be materially different from any results expressed or implied by any forward-looking statements.

Except as required by applicable law or the listing rules of the NYSE we expressly disclaim any intent or obligation to update any forward-looking statements, or to update the reasons actual results could differ materially from those expressed or implied by these forward-looking statements, whether to conform such statements to actual results or changes in our expectations, or as a result of the availability of new information.

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We qualify all of our forward-looking statements by these cautionary statements.

### PART I

References in this Annual Report on Form 10-K (Annual Report) to "Deckers", "we", "our", "us", or the "Company" refer to Deckers Outdoor Corporation together with its consolidated subsidiaries. Ahnu®, Deckers®, Hoka One One® (Hoka), MOZO®, Sanuk®, Teva®, TSUBO®, UGG® and UGGpure™ are some of our trademarks. 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 amounts in Item 1. and Item 1A. herein are expressed in thousands, except for employees, share quantity, per share data and selling prices.

##### General

Deckers Outdoor Corporation was incorporated in 1975 under the laws of the State of California and, in 1993, reincorporated under the laws of the State of Delaware. We are a global leader in designing, marketing and distributing innovative footwear, apparel and accessories developed for both everyday casual lifestyle use and high performance activities. We believe that our footwear is distinctive and appeals broadly to women, men and children. We sell our products, including accessories such as handbags and loungewear, through quality domestic and international retailers, international distributors, and directly to end-user consumers both domestically and internationally, through our websites, call centers, and retail stores. Our primary objective is to build our footwear lines into global lifestyle brands with market leadership positions. We seek to differentiate our brands and products by offering diverse lines that emphasize authenticity, functionality, quality, and comfort, and products tailored to a variety of activities, seasons, and demographic groups. All of our products are currently manufactured by independent contractors primarily in Asia. Our continued growth will depend upon the broadening of our products offered under each brand, the appeal of our products to our consumers, expanding domestic and international distribution, successfully opening new retail stores, increasing sales to consumers, and developing or acquiring new brands. In February 2014, our Board of Directors approved a change in the Company's fiscal year end from December 31 to March 31. The change was intended to better align our planning, financial and reporting functions with the seasonality of our business. The 2015, 2013 and 2012 fiscal years ended March 31, 2015, December 31, 2013 and December 31, 2012, respectively. The transition period was the quarter ended March 31, 2014 to coincide with the change in our fiscal year end.

##### Products

We market our products primarily under three proprietary brands:

**UGG.** The UGG brand is one of the most iconic and recognized brands in the global footwear industry and highlights the Company's successful track record of building niche brands into lifestyle market leaders. With loyal consumers around the world, the UGG brand has proven to be a highly resilient line of premium footwear, with expanded product offerings and a growing global audience that attracts women, men and children. UGG brand footwear continually earns media exposure from numerous outlets both organically and from strategic public relations efforts, including an increasing amount of exposure internationally.

**Teva.** Teva is our active lifestyle brand, born from the outdoors and rooted in adventure. As the originator of the sport sandal, today the Teva product line includes casual sandals, shoes and boots built for ultimate versatility. We are focused on regaining our leadership position in the sandal market, and continuing to expand our casual and women's offerings to appeal to a wider range of consumers through utility-driven design, color and premium materials.

**Sanuk.** Sanuk is our fun lifestyle footwear brand rooted in surf culture but embraced by an eclectic mix of style-savvy optimists. The Sanuk brand is probably best known for the patented SIDEWALK SURFERS® shoe and its Yoga Mat™ and Beer Cozy sandal collections. The brand has a history of innovation, product invention, foot-friendly comfort, unexpected materials and clever branding.

We plan to elevate the approach in which we communicate the Sanuk brand story to a broader audience, especially women, through highly targeted communications that retain the brands unique attitude. We also continue to build on the Sanuk brand's authentic position in the surf and outdoor markets through its relationships with prominent professional athletes and ambassadors, including surfers, rock climbers, photographers, artists, and musicians known

as much for their unique personal styles and charisma as for their specialized talents.

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In addition to our primary brands, our other brands include Ahnu, a line of outdoor performance and lifestyle footwear; Hoka, a line of footwear for all capacities of runners designed with a unique performance midsole geometry, oversize midsole volume and active foot frame; MOZO, a line of footwear crafted for culinary professionals that redefines the industry's dress code; and TSUBO, a line of mid and high-end dress and dress casual footwear that incorporates style, function, and maximum comfort.

With respect to MOZO and TSUBO, we are seeking strategic alternatives for these businesses.

In April 2015, the Company acquired inventory and certain intangible assets, including the trade name related to the Koolaburra® brand, a sheepskin and wool based footwear brand. The purchase price of the acquisition was not material to the Company's consolidated financial statements.

### Sales and Distribution

At the wholesale level, we distribute our products in the US through sales representatives, who are organized geographically and by brand. In addition to our wholesale business, we also sell products directly to consumers through our websites and retail stores. Our brands are generally advertised and promoted through a variety of consumer media 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 also manage brand marketing on a global basis to ensure consistent consumer communications in all regions and channels. We determine our global communication plans based on brand strategies, consumer insights, and return on investment measures.

Our sales force is generally separated by brand, as each brand generally has certain specialty consumers; however, there is overlap between the sales teams and customers. We have aligned our brands' sales forces to position them for the future of the brands. Each brand's respective sales manager recruits and manages his or her network of sales representatives. We believe this approach for the US market maximizes our selling efforts.

We distribute products sold in the US through our distribution centers in Camarillo, Moreno Valley and Ventura, California. Our distribution centers feature a warehouse management system that enables us to efficiently pick and pack products for direct shipment to customers. 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.

Internationally, we distribute our products through independent distributors and retailers in many countries, including throughout Europe, Asia-Pacific, Canada, and Latin America, among others. In addition, as we do in the US, in certain countries, we sell products directly to consumers through our websites and our retail stores. For our wholesale and Direct-to-Consumer businesses, we operate distribution centers with third-party logistics (3PLs) in certain international locations. Our principal wholesale customers include specialty retailers, selected department stores, outdoor retailers, sporting goods retailers, shoe stores, and online retailers.

Our five largest customers accounted for approximately 22.2% of worldwide net sales for the year ended March 31, 2015 compared to 23.0% for the year ended December 31, 2013. No single customer accounted for greater than 10% of our consolidated net sales in the years ended March 31, 2015 and December 31, 2013, respectively.

**UGG.** We sell our UGG footwear and accessories primarily through higher-end department stores such as Nordstrom, Neiman Marcus, Dillard's and Bloomingdale's, as well as independent specialty retailers such as Journeys, and online retailers such as Zappos.com. 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 products.

**Teva.** We sell our Teva footwear primarily through specialty outdoor and sporting goods retailers such as REI, L.L. Bean, Dick's Sporting Goods, and The Sports Authority, as well as online retailers such as Zappos.com. Our brand strength in casual and women's footwear has also expanded our business to a wider distribution of department store and mall channels including Nordstrom, Dillard's and Journeys, as well as family footwear with DSW and Famous Footwear. We believe distribution that services active lifestyle consumers with premium assortments, merchandising and customer experience will continue to be areas of growth for the brand.

**Sanuk.** We sell our Sanuk footwear primarily through independent action sports retailers, outdoor retailers, specialty footwear retailers and larger national retail chains including Nordstrom, Dillard's, Journeys, DSW, Urban Outfitters

and Tilly's. We believe all these retailers showcase the brand's creativity, fun, and comfort and allow us to effectively reach our target consumers for the brand.

Other brands. Our other brands are sold primarily at specialty running stores, high-end department stores, outdoor specialty accounts, independent specialty retailers, and with online retailers that support our brand ideals of comfort, style, and quality. Key accounts of our other brands include Nordstrom, Dillard's, Hanigs, REI, and Zappos.com.



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**E-Commerce.** Our E-Commerce business enables us to market, communicate and build our relationships with the consumer. E-Commerce enables us to meet the growing demand for our products, sell the products at retail prices, and provide significant incremental operating income. The E-Commerce business provides us an opportunity to communicate to the consumer with a consistent brand message that is in line with our brands' promises, drives awareness of key brand initiatives, and offers targeted information to specific consumer segments. We operate our E-Commerce business through the Uggaustralia.com, Teva.com, Sanuk.com, Ahnu.com, Hokaoneone.com, Mozo.com, and Tsubo.com websites. Our websites also drive wholesale and distributor sales through brand awareness and by directing consumers to retailers that carry our brands, including our own retail stores. In recent years, our E-Commerce business has had significant revenue growth, much of which occurred as the UGG brand gained popularity and as consumers continued to increase internet usage for footwear and other purchases.

We have expanded our international capabilities by developing websites to service certain international markets. These websites are translated into the local language, may provide product through local distribution centers and price the products in the consumers' local currency. In 2012, we launched mobile websites for several of our brands in Europe, Japan and the US, in addition to websites in the US for our Sanuk brand. Our E-Commerce business sells products directly to consumers throughout the world, including the US, the United Kingdom (UK), Japan and China. In March 2015, we launched our first multi-brand E-Commerce website in the Asia-Pacific region, which is live in Singapore, Australia and Hong Kong and is expected to debut in Malaysia and South Korea during fiscal year 2016. In order to reduce the cost of order fulfillment, minimize out of stock positions, and further leverage our distribution centers' operations, order fulfillment is performed by our distribution centers in California, the UK, the Netherlands, China and Japan. Products sold through our E-Commerce business are sold at prices which approximate retail prices, enabling us to capture the full retail margin on each Direct-to-Consumer transaction.

Through our integrated OmniChannel strategy, we believe that consumers try on product in our retail stores, perform further online research and order products online and, conversely, E-Commerce fuels our retail locations. As a result, we believe that our stores and websites are mutually dependent in a way that will allow us to view them on a combined basis. Further, a number of our stores allow the consumer to buy through our E-Commerce channel using internet capable devices in our stores.

**Retail Stores.** Our retail stores are predominantly UGG concept stores and UGG outlet stores. In 2013, we expanded our fleet and opened our first Sanuk (two concept, one outlet) stores. Our retail stores enable us to directly impact our customers' experience, meet the growing demand for these products, sell the products at retail prices and generate strong annual operating income. In addition, our UGG concept stores allow us to showcase our entire product line including footwear, accessories, handbags, home, outerwear, lounge, and retail exclusive items; whereas, a wholesale account may not represent all of these categories. Through our outlet stores, we sell some of our discontinued styles from prior seasons, as well as full price in-line products, and products made specifically for the outlet stores.

In fiscal year 2015, we opened new stores in the US and internationally. A large majority of the new stores were in the US and China, with the remaining new stores in Japan, Canada and Hong Kong. As of March 31, 2015, we had a total of 142 stores worldwide. As of December 31, 2013, we had 113 stores worldwide. During fiscal year 2016, we plan to open additional retail stores in the US and internationally.

### **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 and outside freelance designers. By utilizing outside designers, 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. Refer to Note 1 to our accompanying consolidated financial statements in Part IV of this Annual Report for a discussion of our research and development costs for the last three years.

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 and accessories for our 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 that our consumers demand. Throughout the development process, we have multiple design and development reviews, which we then coordinate with our independent manufacturers. This ensures that we are addressing the needs of our consumers and are working toward a common goal of developing and producing a high quality product to be delivered on a timely basis.

#### Manufacturing and Supply Chain

We do not manufacture our products; we outsource the production of our brand footwear to independent manufacturers primarily in Asia. We require our independent contract manufacturers and designated suppliers to adopt our Supplier Code of Conduct, which specifies that they comply with all local laws and regulations governing human rights, working conditions, and

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environmental compliance before we are willing to conduct business with them. We also require our manufacturing partners and licensees to comply with our Restricted Substances policy as a condition of doing business with our company. 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 a buying office in Hong Kong and an on-site supervisory office in Pan Yu City, China that together serve as a link 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 regional presence provides predictability of material availability, product flow and adherence to final design specifications. To ensure the production of high-quality products, the majority of the materials and components used in production of our products by these independent manufacturers are purchased from independent suppliers that we designate. Excluding sheepskin and UGGpure, we believe that substantially all the various raw materials and components used to manufacture our footwear, including wool, rubber, leather, and nylon webbing are generally available from multiple sources at competitive prices. We began using UGGpure, a wool woven into a durable backing, in many of our UGG products in 2013. We generally outsource our manufacturing requirements on the basis of individual purchase orders or short-term purchase commitments 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 for our products primarily from Australia and the UK. We maintain communication with the tanneries to monitor the available supply of sufficient high quality sheepskin for our projected UGG brand production. To ensure adequate supplies for our manufacturers, we forecast our usage of sheepskin in advance at a forward price. We have also entered into minimum purchase commitments with certain sheepskin suppliers (see Note 6 to our accompanying consolidated financial statements in Part IV of this Annual Report). We believe current supplies are sufficient to meet our needs in the near future, but we continue to investigate our options to accommodate any unexpected future growth.

We have instituted pre-production, in-line, and post-production inspections to meet or exceed the high quality demanded by us and 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 distribution centers.

### Patents and Trademarks

We utilize trademarks on virtually all of our products and believe that having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, identifying the Company, and distinguishing our goods from the goods of others. We currently hold trademark registrations for UGG, Teva, Sanuk, Ahnu, Hoka One One, MOZO, TSUBO, and other marks in the US and in many other countries, including the countries of the European Union, Canada, China, Japan and Korea. As of March 31, 2015, we hold approximately 180 utility and design patent registrations in the US and abroad and have filed more than 20 new patent applications which are currently pending. These patents expire at various times. We regard our proprietary rights as valuable assets and vigorously protect such rights against infringement by third parties. No single patent or group of patents expiring in the same year is critical to our business.

### Seasonality

Our 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. Our financial results include the Hoka brand beginning September 27, 2012. Historically, our total net sales in the quarters ending September 30 and December 31 have exceeded total net sales for the quarters ending March 31 and June 30 of each year, and we expect this trend to continue. Our other brands do not have a significant seasonal impact on our business. Nonetheless, actual results could differ materially depending upon consumer preferences, availability of product, competition, and our wholesale and distributor customers continuing to carry and promote our various product lines, among other risks and uncertainties. See Part I, Item 1A, "Risk Factors". For further discussion on our working capital and inventory management, see Part II, Item 7,

"Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources".

#### Backlog

Historically, we have encouraged our wholesale and distributor customers to place, and we have received, a significant portion of orders as preseason orders, generally four to eight months prior to the anticipated shipment date. We work with our wholesale customers through 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, which can be cancelled prior to shipment. The backlog as of a particular date is affected by a number of factors, including

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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.

At March 31, 2015, our backlog of orders from our wholesale customers and distributors was approximately \$609,000 compared to approximately \$614,000 at March 31, 2014. While all orders in the backlog are subject to cancellation by customers, we expect that the majority of such orders will be filled in fiscal year 2016. We believe that backlog at year-end is an imprecise indicator of total revenue that may be achieved for the full year for several reasons. Backlog only relates to wholesale and distributor orders for the next season and current season fill-in orders, and excludes potential sales in our E-Commerce business and retail stores during the year. Backlog is also affected by the timing of customers' orders and product availability.

### Competition

The casual, outdoor, athletic, fashion, and formal footwear markets are highly competitive. Our competitors include athletic and footwear companies, branded apparel companies, and retailers with their own private labels. Although the footwear industry is fragmented to a certain degree, many of our competitors are larger and have substantially greater resources than us, including athletic shoe companies, several of which compete directly with some of our products. In addition, access to offshore manufacturing has made it easier for new companies to enter the markets in which we compete, further increasing competition in the footwear and accessory industries. In particular, in part due to the popularity of our UGG products, we face increasing competition from a significant number of domestic and international competitors selling products designed to compete directly or indirectly with our UGG products.

We believe that our footwear lines and other product lines compete primarily on the basis of brand recognition and authenticity, product quality and design, functionality, performance, comfort, 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;
- price our products suitably;
- provide strong and effective marketing support;
- and
- ensure product availability.

We believe we are well positioned to compete in the footwear industry. We continually look to acquire or develop more footwear brands to complement our existing portfolio and grow our existing consumer base.

### Employees

At March 31, 2015, we employed approximately 3,400 employees in the US, Europe, and Asia, none of whom were represented by a union. This figure includes approximately 1,900 employees in our retail stores worldwide, which includes part-time and seasonal employees. We employed approximately 3,200 employees at December 31, 2013, including approximately 2,000 employees in our retail stores. The decrease in retail employees was largely due to employing fewer seasonal workers at March 31, 2015 compared to December 31, 2013. The overall increase in employees during fiscal year 2015 was primarily related to increased expansion efforts. As we open new retail stores and expand our operations, we expect that our employee count will increase accordingly. We believe that we have good relationships with our employees.

### Financial Information about Segments and Geographic Areas

Our six reportable business segments include the strategic business units responsible for the worldwide operations of our brands' (UGG, Teva, Sanuk and other brands) wholesale divisions, as well as our E-Commerce and retail store businesses. The majority of our sales and long-lived assets are in the US. Refer to Note 11 to our accompanying consolidated financial statements in Part IV of this Annual Report for further discussion of our business segments. Refer to Part I, Item 1A "Risk Factors" for a discussion of the risks related to our foreign operations.



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Compliance with federal, state, and local environmental regulations has not had, and it is not expected to have, any material effect on our capital expenditures, earnings, or competitive position based on information and circumstances known to us at this time.

### Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at [www.deckers.com](http://www.deckers.com). Such documents are available as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission. However, the information contained on or accessed through our website does not constitute part of this Annual Report, and references to our website address in this Annual Report are inactive textual references only. Our filings may also be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

We also make available through our website the following corporate governance documents: Audit Committee Charter, Compensation Committee Charter, Corporate Governance Charter, Code of Ethics, Accounting and Finance Code of Conduct, Corporate Governance Guidelines, Conflict Minerals Report and Conflict Minerals Policy. We have included the Chief Executive Officer (CEO) and Chief Financial Officer certifications regarding the Company's public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibit 31.1 and Exhibit 31.2, respectively, to this report on Form 10-K. Additionally, we filed with the New York Stock Exchange (NYSE) the CEO's certification regarding the Company's compliance with the NYSE's Corporate Governance Listing Standards (Listing Standards) pursuant to Section 303A.12(a) of the Listing Standards, which indicated that the CEO was not aware of any violations of the Listing Standards by the Company.

### Item 1A. Risk Factors.

Our short and long-term success is subject to many factors beyond our control. Investing in our common stock involves substantial risk. Before investing in our stock, stockholders and potential stockholders should carefully consider the following risk factors related to our company as well as general investor risks, 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 may lose all or part of their investment. Please also see the section entitled "Cautionary Note Regarding Forward-Looking Statements" on page 2 of this Annual Report.

Many of our products are seasonal, and our sales are sensitive to weather conditions.

Sales of our products are highly seasonal and are sensitive to weather conditions, which are beyond our control. For example, extended periods of unseasonably warm weather during the fall and winter months may reduce demand for our UGG products. Furthermore, variations in weather conditions across the globe may impact sales of our products in ways that we cannot predict. If management is not able to timely adjust expenses in reaction to adverse events such as unfavorable weather, weak consumer spending patterns or unanticipated levels of order cancellations because of seasonal circumstances, our profitability may be materially affected. Even though we are creating more year-round styles for our brands, the effect of favorable or unfavorable weather on sales can be significant enough to affect our quarterly and annual results, with a resulting effect on our common stock price.

If raw materials do not meet our specifications, consumer expectations or experience price increases or shortages, we could realize interruptions in manufacturing, increased costs, higher product return rates, a loss of sales, or a reduction in our gross margins.

We depend on a limited number of key sources for certain raw materials. For sheepskin, the raw material used in many of our UGG products, we rely on two tanneries. Both the top grade twin-face and other grades of sheepskin used in UGG products are in high demand and limited supply. Furthermore, our unique sheepskin needs require certain types of sheepskin that may only be found in certain geographic locations and tanneries with sufficient expertise and capacity to deliver sheepskin which meets our specifications. The supply of sheepskin can be adversely impacted by

weather conditions, disease, and harvesting decisions that are completely outside our control. For example, if the price of wool increases, sheep herders may choose not to harvest their sheep and instead choose to shear their sheep for wool, thus decreasing the supply of sheepskin. Sheepskin is also a by-product of the food industry and is therefore dependent upon the demand by the food industry, which has generally been decreasing, thus leading to an overall reduction in the number of sheep available. The potential inability to obtain sheepskin, UGGpure and other raw materials could impair our ability to meet our production requirements 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. There

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have also been significant fluctuations in the prices of sheepskin as the demand from competitors for this material and the supply of sheep have changed. We experienced an increase in sheepskin costs in 2012 and a decrease in 2013, with the majority of the decrease being realized in the fourth quarter of 2013. In fiscal year 2015, average sheepskin prices decreased compared to 2013. We attempt to cover the full amount of our sheepskin purchases under fixed price contracts.

We began using a new raw material, UGGpure, a wool woven into a durable backing, in some of our UGG products in 2013. If these raw materials and the end product do not conform to our specification or fail to meet consumer expectations, we could experience a higher rate of customer returns and deterioration in the image of our brands, which could have a material adverse effect on our business, results of operations, and financial condition. In addition, our sheepskin and UGGpure suppliers warehouse their inventory at a limited number of facilities in China, the loss of any of which due to natural disasters and other adverse events would likely result in shortages of sheepskin or UGGpure leading to delays in the production of our products and could result in a loss of sales and earnings.

Any price increases in key raw materials will likely raise our costs and decrease our profitability unless we are able to commensurately increase our selling prices and implement other cost-saving measures. Our independent manufacturers use various raw materials in the production of our footwear and accessories that must meet our design specifications and, in some cases, additional technical requirements for performance footwear.

Our new and existing retail stores may not realize returns on our investments.

Our retail segment has grown substantially in both net sales and total assets during the past year, and we intend to expand this segment in the future. We have entered into significant long-term leases for many of our retail locations. Global store openings involve substantial investments, including constructing leasehold improvements, furniture and fixtures, equipment, information systems, inventory, and personnel. In addition, since a certain amount of our retail store costs are fixed, if we have insufficient sales, we may be unable to reduce expenses in order to avoid losses or negative cash flows. Due to the high fixed cost structure associated with the retail segment, negative cash flows or the closure of a store could result in significant write-downs of inventory, severance costs, lease termination costs, impairment losses on long-lived assets, or loss of our working capital, which could adversely impact our financial position, results of operations, or cash flows.

In addition, from time to time we license the right to operate retail stores for our brands to third parties. We provide training to support these stores, and set and monitor operational standards. However, the quality of these store operations may decline due to the failure of these third parties to operate the stores in a manner consistent with our standards, which could harm their sales and as a result harm our results of operations, result in loss of our capital or other contributions, or cause our brand image to suffer.

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 projected volumes many months before consumer tastes become apparent. The footwear and fashion industry is subject to rapid changes in consumer preferences, making it difficult to accurately forecast demand for our products and our future results of operations. Many factors may significantly affect demand for our products, which include: consumer acceptance of our products, the lifecycle of our products and consumer replenishment and buying behavior, changes in consumer demand for products of our competitors, effects of weather conditions, our reliance on manual processes and judgment for certain supply and demand planning functions that are subject to human error, unanticipated changes in general market conditions, and weak economic conditions or consumer confidence that reduces demand for discretionary items, such as our products.

A large number of models, colors, and sizes in our product lines can 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 incur higher markdowns or sell excess inventories at reduced prices resulting in lower, or negative, gross margins. On the other hand, if we underestimate demand for our products or if our independent factories are unable to supply products when we need them, we may experience inventory shortages that may prevent us from fulfilling customer orders or delaying shipments to customers. This could negatively affect our relationship with customers and diminish our brand loyalty, which may have a material adverse effect on our financial condition

and results of operations.

Failure to adequately protect our trademarks, patents, and other intellectual property rights or deter counterfeiting could diminish the value of our brands and reduce sales.

We believe that our trademarks, patents, trade dress, trade names, trade secrets, copyrights and other intellectual property rights are of value and are integral to our success and our competitive position. Specifically, the success of the UGG brand has led to trademark counterfeiting, product imitation and other infringements of our intellectual property rights. We devote significant resources to the registration and protection of our trademarks and to anti-counterfeiting efforts worldwide. In spite of our efforts, counterfeiting still occurs and if we are unsuccessful in challenging a third-party's use related to trademark, trade dress or other

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intellectual property rights, this could adversely affect our future sales, financial condition, and results of operation. If our brands are associated with infringers' or competitors' inferior products, this could also adversely affect the integrity of our brands.

Although we are aggressive in pursuing entities involved in the trafficking and sale of counterfeit merchandise through legal action or other appropriate means, we cannot guarantee that the action we have taken will be adequate to protect our brands and prevent counterfeiting in the future, especially because some countries' laws do not protect intellectual property rights to the same extent as do US laws. Our business could be significantly harmed if we are not able to protect our intellectual property, adequately secure intellectual property rights related to our brands in specific territories, or if a court found that we are infringing on other persons' intellectual property rights. Any intellectual property lawsuits or threatened lawsuits in the US or internationally in which we are involved, either as a plaintiff or as a defendant, could cost a significant amount of time and money and distract management's attention from operating our business. If we do not prevail on any intellectual property claims, then we may have to change our manufacturing processes, products, trade names, or enter into costly license agreements, any of which could have a material adverse effect on our results of operations and financial condition. Additionally, unplanned increases in legal fees and other costs associated with the defense of our intellectual property or rebranding could result in higher operating expenses and lower earnings.

For example, from time to time, we may need to defend against claims that the word "ugg" is a generic term. Such a claim was successful in Australia, but such claims have been rejected by courts in the US, China, Turkey and in the Netherlands. We have also faced claims that "UGG Australia" is geographically deceptive. Any decision or settlement in any of these matters that prevents trademark protection of the "UGG" brand in our major markets, or that allows a third-party to continue to use our brand trademarks in connection with the sale of products similar to our products, or to continue to manufacture or distribute counterfeit products could result in intensified commercial competition and could have a material adverse effect on our results of operations and financial condition.

Our success depends on our ability to retain the value of our brands and to anticipate and promptly respond to changing fashion and retail trends.

Our success depends largely on the continued strength of our brands, on our ability to anticipate, understand, and react to the rapidly changing fashion tastes of footwear, apparel, and accessory 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 consumer receptivity to our products and marketing strategy. There can be no assurance that