DECKERS OUTDOOR CORP
Form 10-Q
May 11, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from to

Commission File Number: 0-22446

DECKERS OUTDOOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-3015862**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
495-A South Fairview Avenue, Goleta, California	**93117**
(Address of principal executive offices)	(zip code)

(805) 967-7611

(Registrant s telephone number, including area code)

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

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

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

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

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

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

Class	**Outstanding at April 27, 2009**
Common Stock, $0.01 par value	13,115,373

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Exhibit 32

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DECKERS OUTDOOR CORPORATION

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Condensed Consolidated Balance Sheets

(Unaudited)

(amounts in thousands, except par value)

	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 179,073	$ 176,804
Restricted cash	300	300
Short-term investments	50,947	17,976
Trade accounts receivable, net of allowances of $8,103 and $10,706 as of March 31, 2009 and December 31, 2008, respectively	56,298	108,129
Inventories	66,399	92,740
Prepaid expenses and other current assets	5,045	3,691
Deferred tax assets	13,317	13,324
Total current assets	371,379	412,964
Restricted cash	400	700
Property and equipment, at cost, net	30,123	28,318
Intangible assets, net	26,152	24,034
Deferred tax assets	17,455	17,447
Other assets	444	258
Total assets	$ 445,953	$ 483,721
Liabilities and Stockholders Equity		
Current liabilities:		
Trade accounts payable	$ 19,492	$ 42,960
Accrued expenses	15,442	27,672
Income taxes payable	7,852	24,577
Total current liabilities	42,786	95,209
Long-term liabilities	3,696	3,847
Stockholders equity:		
Deckers Outdoor Corporation stockholders equity:		
Common stock, $0.01 par value; authorized 20,000 shares; issued and outstanding 13,115 and 13,089 shares as of March 31, 2009 and December 31, 2008, respectively	131	131
Additional paid-in capital	117,714	115,214
Retained earnings	280,855	268,515
Accumulated other comprehensive income	345	392
Total Deckers Outdoor Corporation stockholders equity	399,045	384,252
Noncontrolling interest	426	413
Total equity	399,471	384,665

Total liabilities and equity	$	445,953	$	483,721

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Income

(Unaudited)

(amounts in thousands, except per share data)

	Three Months Ended March 31, 2009		Three Months Ended March 31, 2008	
Net sales	$	134,226	$	97,535
Cost of sales		75,313		51,387
Gross profit		58,913		46,148
Selling, general and administrative expenses		39,587		29,088
Income from operations		19,326		17,060
Other (income) expense, net:				
Interest income		(596)		(1,389)
Interest expense		17		32
Other, net		(19)		(251)
		(598)		(1,608)
Income before income taxes		19,924		18,668
Income taxes		7,571		7,374
Net income		12,353		11,294
Less: Net income attributable to the noncontrolling interest		13		
Net income attributable to Deckers Outdoor Corporation	$	12,340	$	11,294
Net income attributable to Deckers Outdoor Corporation common stockholders per share:				
Basic	$	0.94	$	0.87
Diluted	$	0.93	$	0.86
Weighted-average common shares outstanding:				
Basic		13,090		13,008
Diluted		13,201		13,175

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

(Unaudited)

(amounts in thousands)

	Three months ended March 31, 2009	2008
Cash flows from operating activities:		
Net income	$ 12,353	$ 11,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	2,106	1,122
Provision for doubtful accounts, net	315	619
Write-down of inventory	1,048	633
Share-based compensation	2,403	2,009
Other	(5)	
Changes in operating assets and liabilities net of assets and liabilities acquired in the acquisition of Ahnu, Inc.:		
Restricted cash	300	117
Trade accounts receivable	51,739	30,890
Inventories	27,112	1,702
Prepaid expenses and other current assets	(1,243)	(2,393)
Other assets	(186)	
Trade accounts payable	(24,050)	(10,834)
Accrued expenses	(15,519)	(5,917)
Income taxes payable	(16,724)	(10,408)
Long-term liabilities	(151)	2,533
Net cash provided by operating activities	39,498	21,367
Cash flows from investing activities:		
Purchases of short-term investments	(38,744)	(148,838)
Proceeds from sales of short-term investments	5,478	159,930
Purchases of property and equipment	(2,513)	(6,323)
Acquisition of Ahnu, Inc.	(1,675)	
Net cash (used in) provided by investing activities	(37,454)	4,769
Cash flows from financing activities:		
Cash paid for shares withheld for taxes	(503)	7
Excess tax benefits from share-based compensation	696	386
Cash received from issuances of common stock		41
Net cash provided by financing activities	193	434
Effect of exchange rates on cash	32	(30)
Net change in cash and cash equivalents	2,269	26,540
Cash and cash equivalents at beginning of period	176,804	54,525
Cash and cash equivalents at end of period	$ 179,073	$ 81,065
Supplemental disclosure of cash flow information:		

Cash paid during the period for:				
Income taxes	$	23,599	$	17,405
Interest	$	2	$	8
Non-cash investing activity:				
Accruals for purchases of property and equipment	$	902	$	122
Non-cash financing activity:				
Accruals for shares withheld for taxes	$	599	$	

See accompanying notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

(1) General

(a) Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual audited consolidated financial statements and, in the opinion of management, reflect all adjustments necessary for a fair presentation for each of the periods presented. The results of operations for interim periods are not necessarily indicative of results to be achieved for full fiscal years. Our business is seasonal, with the highest percentage of UGG® brand net sales occurring in the third and fourth quarters and the highest percentage of Teva® brand net sales occurring in the first and second quarters of each year. To date, the other brands have not had a seasonal impact on the Company. In March 2009, the Company acquired 100% of the ownership interest of Ahnu, Inc., an outdoor performance and lifestyle footwear brand. The Company does not expect the Ahnu® brand to have a significant effect on the seasonality of its consolidated net sales in 2009.

As contemplated by the Securities and Exchange Commission (SEC) under Rule 10-01 of Regulation S-X, the accompanying condensed consolidated financial statements and related footnotes have been condensed and do not contain certain information that will be included in the Company s annual consolidated financial statements and footnotes thereto. For further information, refer to the consolidated financial statements and related footnotes for the year ended December 31, 2008 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

(b) Use of Estimates

The preparation of the Company s condensed consolidated financial statements in accordance with US generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Significant areas requiring the use of management estimates relate to inventory reserves, allowances for bad debts, returns, chargebacks and discounts, share-based compensation, impairment assessments, depreciation and amortization, income tax liabilities and uncertain tax positions, fair value of financial instruments, and fair values of acquired intangibles, assets and liabilities. Actual results could differ materially from these estimates.

(c) Reclassifications

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

(2) Share-Based Compensation

In May 2006, the Company adopted the 2006 Equity Incentive Plan, **which was amended by Amendment No. 1 dated May 9, 2007, or** the 2006 Plan. The primary purpose of the 2006 Plan is to encourage ownership in the Company by key personnel, whose long-term service is considered essential to the Company s continued progress. The 2006 Plan provides for 2,000,000 shares of the Company s common stock that are reserved for issuance to employees, directors, or consultants. The maximum aggregate number of shares that may be issued under the 2006 Plan through the exercise of incentive stock options is 1,500,000.

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

In May 2007, the Company adopted two new types of long-term incentive award agreements under the 2006 Plan for issuance to the Company s current and future executive officers. The new award types consist of stock appreciation right (SAR) awards and restricted stock unit (RSU) awards. These awards vest subject to certain long-term performance and service conditions. Provided that these conditions are met, one-half of the SAR and RSU awards vest 80% on December 31, 2010 and 20% on December 31, 2011, and one-half of the SAR and RSU awards vest 80% on December 31, 2015 and 20% on December 31, 2016. In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS)

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No. 123 (revised 2004), Share-Based Payment (SFAS 123R), the Company recognizes expense only for those awards that management deems probable of achieving the performance and service objectives.

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

The table below summarizes stock compensation amounts recognized in the condensed consolidated statements of income:

	Three months ended March 31, 2009	Three months ended March 31, 2008
Compensation expense recorded for:		
NSUs	$ 1,177	$ 1,063
SARs	877	543
RSUs	170	114
Directors shares	179	289
Total compensation expense	2,403	2,009
Income tax benefit recognized	(960)	(819)
Net compensation expense	$ 1,443	$ 1,190

The table below summarizes the total remaining unrecognized compensation cost related to nonvested awards and the weighted-average period over which the cost is expected to be recognized as of March 31, 2009:

	Unrecognized Compensation Cost	Weighted-Average Remaining Vesting Period (Years)
NSUs	$ 10,615	1.7
SARs	10,926	4.1
RSUs	1,925	4.1
Total	$ 23,466	

During the three months ended March 31, 2009, 90,000 NSUs were granted under the 2006 Plan. The weighted-average grant-date fair value of these NSUs was $52.35.

(3) Comprehensive Income

Comprehensive income is the total of net income and all other non-owner changes in equity. At March 31, 2009 and December 31, 2008, accumulated other comprehensive income of $345 and $392, respectively, consisted of net unrealized gains on short-term investments and cumulative foreign currency translation adjustment.

Comprehensive income is determined as follows:

	Three months ended March	
	2009	2008
Net income	$ 12,340	$ 11,294
Unrealized gains on short-term investments		98
Cumulative foreign currency translation adjustment	(47)	78
Total comprehensive income	$ 12,293	$ 11,470

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(4) Net Income Attributable to Deckers Outdoor Corporation Common Stockholders per Share

Basic net income per share represents net income divided by the weighted-average number of common shares outstanding for the period. Diluted net income per share represents net income divided by the weighted-average number of shares outstanding, including the dilutive impact of potential issuances of common stock. For the three months ended March 31, 2009 and 2008, the difference between the weighted-average number of basic and diluted common shares resulted from the dilutive impact of options to purchase common stock and NSUs.

The reconciliations of basic to diluted weighted-average common shares outstanding were as follows:

	Three months ended March 31, 2009	Three months ended March 31, 2008
Weighted-average shares used in basic computation	13,090,000	13,008,000
Dilutive effect of stock options and NSUs	111,000	167,000
Weighted-average shares used for diluted computation	13,201,000	13,175,000

All options outstanding as of March 31, 2009 and 2008 were included in the computation of diluted income per share.

The Company excluded 90,000 and 79,000 contingently issuable shares of common stock underlying its NSUs from the diluted net income per share computation for the three months ended March 31, 2009 and 2008, respectively. The Company excluded all of its SARs and RSUs from the diluted net income per share computation for the three months ended March 31, 2009 and 2008. The shares were excluded because the necessary conditions had not been satisfied for the shares to be issuable based on the Company s performance through March 31, 2009 and 2008.

(5) Restricted Cash

In January 2007, the Company entered into an escrow agreement by and among Deckers Outdoor Corporation, MacGillivray Freeman Films, Inc., and Comerica Bank. The escrow agreement was initiated in conjunction with the Company s purchase obligation with a movie production company for advertising services. As a result of the agreement, during the three months ended March 31, 2009, the Company paid $300 of the purchase obligation and the Company had $700 of restricted cash related to this obligation remaining as of March 31, 2009. Film production was completed and the movie was released in March 2008. Accordingly, the Company recorded the full $1,250 obligation as advertising expense during the first quarter of 2008. Of the total restricted cash related to this purchase obligation, $300 is short-term and is included as a current asset, and the remaining $400 is long-term and is included as a noncurrent asset in the Company s condensed consolidated balance sheet at March 31, 2009. The escrow agreement contains a disbursement schedule according to when the remaining funds will be disbursed to the production company, which is as follows:

January 2010	$	300
January 2011		200
January 2012		200
	$	700

(6) Fair Value Measurements

The Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157) for financial assets and financial liabilities effective January 1, 2008 and for nonfinancial assets and liabilities beginning January 1, 2009. The adoption of this standard did not have a material effect on the Company s condensed consolidated financial statements. SFAS 157 prioritizes the inputs used in measuring fair value into the following hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable.

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• Level 3: Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Short-term investments are classified as available for sale under the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, the short-term investments are reported at fair value, with any unrealized gains and losses included as a separate component of stockholders equity. Interest and dividends are included in interest income in the consolidated statements of income. Securities with original maturities of three months or less are classified as cash equivalents. Those that mature over three months from their original date and in less than one year are classified as short-term investments, as the funds are used for working capital requirements. The fair values of the Company s short-term investments are shown in the table below and were determined based on Level 1 inputs under SFAS 157.

	March 31, 2009			December 31, 2008		
	Cost	Unrealized Gains	Fair Value	Cost	Unrealized Gains	Fair Value
Short-term Investments						
Government and agency securities	$ 50,901	$ 46	$ 50,947	$ 17,930	$ 46	$ 17,976
Total short-term investments	$ 50,901	$ 46	$ 50,947	$ 17,930	$ 46	$ 17,976

(7) Credit Facility

The Company s revolving credit facility with Comerica Bank (the Facility) provides for a maximum availability of $20,000. Up to $10,000 of borrowings may be in the form of letters of credit. The Facility bears interest at the lender s prime rate (3.25% at March 31, 2009) or, at the Company s option, at the London Interbank Offered Rate, or LIBOR, (0.50% at March 31, 2009) plus 1.0% to 2.5%, depending on the ratio of liabilities to earnings before interest, taxes, depreciation and amortization, and is secured by substantially all assets. The Facility includes annual commitment fees of $60 per year and expires on June 1, 2010. At March 31, 2009, the Company had no outstanding borrowings under the Facility and outstanding letters of credit aggregated $154. As a result, $19,846 was available under the Facility at March 31, 2009.

The agreements underlying the Facility contain certain financial covenants, currently including a limitation on aggregate annual lease payments of $15,000, a quick ratio requirement of at least 0.90:1.00, a minimum profitability requirement of $1,000 per fiscal quarter, a limitation on annual consolidated capital expenditures of $28,000, a minimum tangible net worth requirement of $37,000 commencing with the fiscal year ended December 31, 2004 plus 75% of consolidated net profit on a cumulative basis, and a requirement that the Company s consolidated total liabilities to consolidated effective tangible net worth ratio be no greater than 1.50:1.00. The agreements also contain a prohibition on the payment of dividends.

(8) Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 (revised 2007), Business Combinations (SFAS 141R). The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R requires that all business combinations be accounted for by applying the acquisition method (previously referred to as the purchase method), and most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in business combinations to be recorded at full fair value. SFAS 141R also broadens the definition of a business and changes the treatment of direct acquisition-related costs from being included in the purchase price to instead being generally expensed if they are not costs associated with issuing debt or equity securities. The Company adopted SFAS 141R on January 1, 2009, and applied the provisions to its new business combination. Upon the adoption of SFAS 141R, the Company recorded a liability of $945, included in accrued expenses in the condensed consolidated balance sheet, that would not have otherwise been recorded when compared to the previous guidance of SFAS No. 141, Business Combinations (SFAS 141).

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). The objective of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 specifies that noncontrolling interests (referred to as minority interests prior to SFAS 160) be reported as a separate

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component of equity, not as a liability or other item outside of equity, which changes the accounting for transactions with noncontrolling interest holders. The Company adopted SFAS 160 on January 1, 2009, and applied the provisions to the Company s current noncontrolling interest and reclassified it into equity on the condensed consolidated balance sheets. In addition, net income and net income attributable to Deckers Outdoor Corporation have been adjusted on the condensed consolidated statements of income to conform to SFAS 160.

In April 2009, the FASB issued Staff Position No. 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP 141R-1). FSP 141R-1 amends the provisions in Statement 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. The FSP eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in Statement 141R and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company applied the provisions of FSP 141R-1 effective January 1, 2009, and the adoption of the FSP did not have a material impact on the Company s condensed consolidated financial statements.

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

The Company s accounting policies of the segments below are the same as those described in the summary of significant accounting policies, except that the Company does not allocate interest, income taxes, non-operating income and expenses or certain unusual items to segments. The Company evaluates segment performance primarily based on net sales and income or loss from operations. The Company s reportable segments include the strategic business units responsible for the worldwide wholesale operations of the UGG brand, Teva brand, Simple® brand, and its other brands, its eCommerce business and its retail store business. The wholesale operations of each brand are managed separately because each requires different marketing, research and development, design, sourcing and sales strategies. The eCommerce and retail store segments are managed separately because they are direct to consumer sales, while the brand segments are wholesale sales. The income or loss from operations for each of the segments includes only those costs which are specifically related to each segment, which consist primarily of cost of sales, costs for research and development, design, marketing, sales, commissions, bad debts, depreciation, amortization and the costs of employees and their respective expenses that are directly related to each business segment. The unallocated corporate overhead costs are the shared costs of the organization and include the following: costs of the distribution centers, certain executive compensation, accounting and finance, legal, information technology, credit and collections, human resources and facilities costs, among others. The gross profit derived from the sales to third parties of the eCommerce segment and the US retail store segment is separated into two components: (i) the wholesale profit is included in the operating income or loss of each of the brands wholesale segments, and (ii) the retail profit is included in the operating income or loss of the eCommerce segment and the retail store segment. The gross profit of the international portion of the retail segment includes both the wholesale and retail profit.

The Company s other brands consist of TSUBO® and Ahnu. In May 2008, the Company acquired 100% of the ownership interest of TSUBO, LLC, and in March 2009, the Company acquired 100% of the ownership interest of Ahnu, Inc. The wholesale operations of these brands are included as one reportable segment, other wholesale, presented in the figures below.

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

Net sales and operating income (loss) by business segment are summarized as follows:

	Three months ended March 31, 2009	Three months ended March 31, 2008
Net sales to external customers:		
UGG wholesale	$ 62,985	$ 35,382
Teva wholesale	34,637	36,809
Simple wholesale	3,654	4,388
Other wholesale	2,829	
eCommerce	16,186	15,636
Retail stores	13,935	5,320
	$ 134,226	$ 97,535
Income (loss) from operations:		
UGG wholesale	$ 27,393	$ 16,653
Teva wholesale	7,810	8,838
Simple wholesale	(2,475)	53
Other wholesale	(1,035)	
eCommerce	4,927	5,193
Retail stores	1,016	269
Unallocated overhead costs	(18,310)	(13,946)
	$ 19,326	$ 17,060

Business segment asset information is summarized as follows:

	March 31, 2009	December 31, 2008
Total assets for reportable segments:		
UGG wholesale	$ 70,033	$ 158,726
Teva wholesale	54,008	43,999
Simple wholesale	8,049	7,693
Other wholesale	9,639	5,211
eCommerce	1,060	2,726
Retail stores	19,879	18,482
	$ 162,668	$ 236,837

The assets allocable to each reporting segment generally include accounts receivable, inventory, intangible assets and certain other assets that are specifically identifiable with one of the Company s business segments. Unallocated corporate assets are the assets not specifically related to one of the segments and generally include the Company s cash and cash equivalents, short-term investments, deferred tax assets, and various other assets shared by the Company s segmentsReconciliations of total assets from reportable segments to the condensed consolidated balance sheets are as follows:

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	March 31, 2009	December 31, 2008
Total assets for reportable segments	$ 162,668	$ 236,837
Unallocated deferred tax assets	30,772	30,771
Unallocated cash and cash equivalents and short-term investments	230,020	194,780
Other unallocated corporate assets	22,493	21,333
Consolidated total assets	$ 445,953	$ 483,721

The Company sells its footwear products principally to customers throughout the US. The Company also sells its footwear products to foreign customers located in Europe, Canada, Australia, Asia, and Latin America, among other regions. International sales were 24.0% and 19.3% of the Company s total net sales for the three months ended March 31, 2009 and 2008, respectively. The Company does not consider international operations a separate segment, as management reviews such operations in the aggregate with the aforementioned segments.

Management performs regular evaluations concerning the ability of its customers to satisfy their obligations and records a provision for doubtful accounts based upon these evaluations. No single customer accounted for more than 10.0% of the Company s net sales for either the three months ended March 31, 2009 or 2008. As of March 31, 2009, no single customer represented more than 10.0% of net trade accounts receivable. As of December 31, 2008, the Company had one customer representing 34.1% of net trade accounts receivable.

The Company s production and sourcing is concentrated in China, New Zealand and Australia, with the vast majority of its production at six independent contractor factories in China. The Company s operations are subject to the customary risks of doing business abroad, including, but not limited to, currency fluctuations, customs duties, and related fees, various import controls and other nontariff barriers, restrictions on the transfer of funds, labor unrest and strikes and, in certain parts of the world, political instability.

(10) Commitments and Contingencies

The Company agreed to make loans to its joint venture with Stella International, should the need arise. The estimated total loans by Deckers and Stella International is expected to be approximately $4,000 contributed by both parties in proportion to their respective ownership in the joint venture. The Company also entered into agreements to make potential future earn-out payments relating to its acquisitions of TSUBO, LLC and Ahnu, Inc. The potential TSUBO, LLC earn-out is based on the amount, if any, that sales of TSUBO products exceed certain base revenue levels for each year from 2008 to 2012. At March 31, 2009, the Company did not accrue any earn-out payments for TSUBO, LLC in accordance with SFAS 141. The potential Ahnu, Inc. earn-out is based on the amount, if any, that gross profit of Ahnu products exceed certain base levels for each year from 2010 to 2013. As of March 31, 2009, in accordance with SFAS 141R, $945 is included within accrued expenses in the condensed consolidated balance sheet.

The Company has certain tax obligations to authorities in China for one of the Company s foreign subsidiaries. The Company has paid certain amounts against these obligations and has also negotiated certain reductions of previously accrued amounts. In accordance with SFAS No. 5, Accounting for Contingencies, as of March 31, 2009, management has determined the remaining liability for such matters to be approximately $1,600, and has accrued this amount in other accrued expenses. The statute of limitations on this remaining liability lapses on June 30, 2009 and the amount may change or be eliminated in the second quarter of 2009 as a result of negotiations with the taxing authorities or the lapse of the statute. Because these matters relate in part to employment related tax matters, there is a level of subjectivity utilized in the interpretation of the application of tax and employment related laws and regulations. Accordingly, the amounts as ultimately negotiated and settled may differ from the Company s estimates.

In September 2008, the Company entered into a pilot services agreement whereby a third party is providing the Company with selling services. In connection with this agreement, the Company has guaranteed the third party s obligations to a merchant services provider. The Company may terminate this guarantee upon thirty days written notice to the merchant services provider. The agreement does not provide for a maximum payout; however, management believes the likelihood of any payments under

DECKERS OUTDOOR CORPORATION

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

this guarantee is remote and would have an immaterial effect on the consolidated financial statements. The Company determined this based upon an analysis of the third party s historical financial data and sales and returns projections.

The Company is currently involved in various legal claims arising from the ordinary course of business. Management does not believe that the disposition of these matters will have a material effect on the Company s financial position or results of operations. The Company indemnifies its licensees, distributors and certain promotional partners in connection with claims alleging use of the Company s licensed intellectual property. The terms of the agreements range up to five years initially and do not provide for a limitation on the maximum potential future payments. Management believes the likelihood of any payments is remote and would be immaterial. The Company determined the risk was low based on a prior history of no claims. The Company is not currently involved in any indemnification matters in regards to its intellectual property.

In February 2009, the Company entered into a contract requiring minimum purchase commitments of sheepskin of approximately $64,000 that Deckers affiliates, manufacturers, factories and other agents (each or collectively, a Buyer) must make on or before December 31, 2010. This contract may result in an unconditional purchase obligation, if a Buyer does not meet the minimum purchase requirements. In the event that a Buyer does not purchase such minimum commitments on or before December 31, 2010, the Company is required to purchase any remaining amounts on or before December 31, 2010. The contract does not permit net settlement. The Company s sheepskin purchases by third party factories supplying UGG product to the Company during 2008 exceeded this minimum purchase commitment, and the Company expects such purchases will exceed these levels in 2009 and 2010. Therefore, management believes the likelihood of any payments under this contractual arrangement is remote and would have an immaterial effect on the consolidated financial statements. The Company determined this based upon its historical and projected sales and inventory purchases.

(11) Business Combinations

In May 2008, the Company acquired 100% of the ownership interest of TSUBO, LLC. The acquisition resulted in the recognition of goodwill of $3,496, nonamortizable intangible assets of $1,970 related to the TSUBO trademarks and trade name, as well as $470 of amortizable intangible assets related to TSUBO brand distributor relationships. All of the TSUBO goodwill was written off as of December 31, 2008.

In March 2009, the Company acquired 100% of the ownership interest of Ahnu, Inc., an outdoor performance and lifestyle footwear brand. The Company paid cash consideration in the form of a loan that was entered into concurrently with a definitive agreement for the acquisition of Ahnu, Inc. In accordance with SFAS 141R, the acquisition-date fair value of the total consideration transferred was as follows:

Consideration		
Cash paid	$	1,675
Contingent consideration arrangement		945
	$	2,620
Total identifiable net assets	$	1,863
Goodwill		757
	$	2,620

In addition, the Company may pay future earn-outs based on the amount, if any, that gross profit of Ahnu products exceed certain base levels for each year from 2010 to 2013. The earn-out for each year, if any, will be payable within ninety days after the end of each year. There is no maximum to this potential earn-out, however management believes the estimated undiscounted range of outcomes for this contingent consideration was zero to $8,800. The weighted average fair value of the potential earn-out of $945, based on Level 3 inputs under SFAS 157, was included as purchase consideration and is included within accrued expenses in the condensed consolidated balance sheet as of March 31, 2009.

The Company made this acquisition because it believes that the Ahnu brand complements its existing portfolio of lifestyle brands, and that the Ahnu brand s target consumer, product selection, industry niche and relative under-penetration in the marketplace make it a good fit for the Company. The preliminary purchase price allocation, subject to a measurement period not to exceed one year, resulted in the recognition of $757 of goodwill and amortizable intangible assets of $1,420 related to the Ahnu trademarks and trade name, and was determined, in part, based on the Company s expectation that it can leverage its design, marketing and distribution capabilities to grow the Ahnu brand into a meaningful business over the next several years, consistent with the Company s mission to build niche brands into global market leaders. The goodwill is included in the Company s other brands wholesale reportable segment and none of it is expected to be deductible for tax purposes. The Company is in the process of obtaining a valuation report on the acquired intangible assets and earn-out liability and, once obtained, will finalize measurement of allocated assets and liabilities. The trademarks and trade name are being amortized over ten years.

As of March 31, 2009 and December 31, 2008, the Company had total net goodwill of $6,859 and $6,101, respectively.

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

Forward-Looking Statements

This report and the information incorporated by reference in this report contain 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. We sometimes use words such as anticipate, believe, continue, estimate, expect, intend, may, project, will and similar expressions, as they relate to us, our mana industry, to identify forward-looking statements. Forward-looking statements relate to our expectations, beliefs, plans, strategies, prospects, future performance, anticipated trends and other future events. Specifically, this report and the information incorporated by reference in this report contain forward-looking statements relating to, among other things:

- our business, growth, operating and financing strategies;
- our product mix;
- the success of new products;
- the impact of seasonality on our operations;
- expectations regarding our net sales and earnings growth and other financial metrics;
- our development of international distribution channels; and
- trends affecting our financial condition or results of operations.

We have based our forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. Actual results may differ materially. Some of the risks, uncertainties and assumptions that may cause actual results to differ from these forward-looking statements are described in Part II, Item 1A, Risk Factors. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report and the information incorporated by reference in this report might not happen.

You should read this report in its entirety, together with the documents that we file as exhibits to this report and the documents that we incorporate by reference in this report with the understanding that our future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements and we assume no obligation to update such forward-looking statements publicly for any reason.

The Deckers, UGG, Teva, Simple, TSUBO, and Ahnu families of related marks, images and symbols are our trademarks and intellectual property. Other trademarks, trade names and service marks appearing in this report are the property of their respective holders. References to Deckers, we, us, our, or similar terms refer to Deckers Outdoor Corporation together with its consolidated subsidiaries. Unless otherwise specifically indicated, all dollar amounts herein are expressed in thousands, except for share quantity, per share data, and weighted-average wholesale prices per pair.

Overview

We are a leading designer, producer and brand manager of innovative, high-quality footwear and accessories and the category creator in the luxury sheepskin, sport sandal and sustainable footwear segments. We market our products primarily under three proprietary brands:

- UGG®: Authentic luxury sheepskin boots and a full line of luxury and comfort footwear and accessories;
- Teva®: High performance sport shoes and rugged outdoor footwear and accessories; and
- Simple®: Innovative sustainable-lifestyle footwear and accessories.

In addition to our primary brands, our newest brands include TSUBO®, a line of high-end casual footwear that incorporates style, function and maximum comfort and Ahnu®, a line of outdoor performance and lifestyle footwear.

We sell our brands through our quality domestic retailers and international distributors and directly to our end-user consumers through our eCommerce business and our retail stores. We sell our footwear in both the domestic market and in international markets. Independent third parties manufacture all of our products.

Our business has been impacted by several important trends affecting our end markets:

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- Recent changes in US and global economic conditions have adversely impacted businesses generally; some of our customers have been, and more may be, adversely affected, which in turn has, and may continue to, adversely impact our financial results.

- The markets for casual, outdoor and athletic footwear have grown significantly during the last decade. We believe this growth is a result of the trend toward casual dress in the workplace, increasingly active outdoor lifestyles and a growing emphasis on comfort.

- Consumers are more often seeking footwear designed to address a broader array of activities with the same quality, comfort and high performance attributes they have come to expect from traditional athletic footwear.

- Our customers have narrowed their footwear product breadth, focusing on brands with a rich heritage and authenticity as market category creators and leaders.

- Consumers have become increasingly focused on luxury and comfort, seeking out products and brands that are fashionable while still comfortable.

- There is an emerging sustainable lifestyle movement happening all around the world. Consumers are demanding that brands and companies take a more responsible approach when it comes to protecting the environment.

By emphasizing our brands images and our focus on comfort, performance and authenticity, we believe we can maintain a loyal consumer following that is less susceptible to fluctuations caused by changing fashions and changes in consumer preferences.

Below is an overview of the various components of our business, including some of the important factors that affect each business and some of our strategies for growing each business.

UGG Brand Overview

The UGG brand has become a well-known brand throughout the country as well as internationally. Over the past several years, our UGG brand has received increased media exposure including increased print media in national ads and cooperative advertising with our customers, which has contributed to broader public awareness of the UGG brand and significantly increased demand for the collection. We believe that the increased media focus and demand for UGG products were driven by the following:

- consumer brand loyalty, due to the luxury and comfort of UGG footwear,
- increased marketing in high-end magazines,
- successful targeting of high-end distribution,
- adoption by high-profile film and television celebrities as a favored footwear brand,
- increased media attention that has enabled us to introduce the brand to consumers much faster than we would have otherwise been able to,
- increased exposure to the brand driven by our concept stores which showcase all of our product offerings,
- continued geographic expansion across the US and internationally, and
- continued innovation of new product categories and styles.

We believe the luxury and comfort features of UGG products will continue to drive long-term consumer demand. Recognizing that there is a significant fashion element to UGG footwear and that footwear fashions fluctuate, our strategy seeks to prolong the longevity of the brand by offering a broader product line suitable for wear in a variety of climates and occasions and by limiting distribution to selected higher-end retailers. As part of this strategy we have increased our product offering, including a growing spring line, an expanded men s line, as well as a fall line that consists of a range of luxurious collections for both genders. These collections include: fashion collections, a variety of casual comfort collections, and cold weather offerings, as well as our Classic, Ultra, Ultimate and Slippers collections.

Teva Brand Overview

Though participation in certain traditional outdoor recreational activities has declined recently, we continue to see consumer preferences shifting towards the outdoor lifestyle, and to new outdoor activities that can be done in a day or even an afternoon. Because of Teva s heritage in outdoor footwear, and continued commitment to outdoor performance and lifestyle product innovation, the brand has remained popular with outdoor athletes and enthusiasts, and is poised to capture a new generation of outdoor consumers entering the market. Our spring and fall 2009 product lines include a mix of core performance product evolutions and new lifestyle

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product introductions. Beginning with the introduction of our first fully complete closed-toe footwear collection in fall 2008, we have begun to reduce our reliance on sandal sales and optimal spring weather.

We see opportunities to grow the Teva brand within our core channels of distribution, core outdoor specialty and sporting goods. We also plan to continue our expansion into the family footwear and department store channels, two channels with tremendous upside potential. We believe through effective channel management and product line segmentation, we can grow both of these channels without alienating our core consumer or retailers in the outdoor specialty channel. However, we cannot assure investors that these efforts will be successful.

Simple Brand Overview

The Simple brand is committed to innovation and bringing sustainable products to the market, growing the brand s business, while at the same time bringing environmental awareness and creating meaningful, environmentally friendly products for a global market. The Simple brand is a 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. We are committed to our goal of making Simple products 100% sustainable, thus minimizing the ecological footprint left on the planet. Green Toe®, our collection of sustainable footwear, represents a revolutionary shift in thinking about footwear by building a shoe from the inside out using sustainable materials and processes.

The progress in Green Toe has influenced the rest of the Simple product line, which has led to the development of additional product platforms, such as ecoSNEAKS®. This product collection also uses sustainable materials such as water-based cements, certified organic cotton, British Leather Consortium (BLC) and International Standards Organization (ISO) 14001 leathers, hemp, and outsoles made from recycled car tires. We promote our Simple brand by emphasizing that we make fashionable, youthful, functional and sustainable footwear. Our goal 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 include national publications and alternative weekly publications in select cities around the world. Our online advertising campaign reaches consumers through websites that focus on sustainability as well as popular culture. Additionally, we sponsor environmental-themed concerts and green festivals to showcase and tell the sustainable lifestyle brand story.

Other Brands Overview

In May 2008, we acquired 100% of the ownership interest of TSUBO, LLC. TSUBO, meaning pressure point in Japanese, is marketed as high-end casual footwear for men and women. The brand is the synthesis of ergonomics and style, with a full line of sport and dress casuals, boots, sandals and heels constructed to provide consumers with contemporary footwear that incorporates style, function and maximum comfort. The TSUBO brand has a rich heritage with consumers in major cities around the world, who appreciate design, pay attention to detail, and will not sacrifice comfort. We intend to build on this heritage, positioning the TSUBO brand as the premium footwear solution for people in the city, providing all day comfort, style and quality. The TSUBO brand strives to become well known in the most important style, design, architecture, art and fashion centers around the world. We will continue to create product addressing consumers unique needs, all-day comfort, innovative style and superior quality. At the same time, we will market to TSUBO consumers where they live, emphasizing regional advertising and in-market grass roots, product placement and public relations efforts.

In March 2009, we acquired 100% of the ownership interest of Ahnu, Inc. Founded in 2006 and headquartered in Alameda, California, Ahnu is an outdoor performance and lifestyle footwear brand with products for men, women and children. The name Ahnu is derived from the goddess of balance and well-being in Celtic mythology. The brand focuses on balancing work and play, family and friends, and self and society. The Ahnu brand product goal is to achieve uncompromising footwear performance by developing footwear that will provide the appropriate balance of traction, grip, flexibility, cushioning and durability for a variety of outdoor activities whether on trails, beaches or sidewalks. Ahnu products are sold throughout the US primarily at department stores and independent shoe stores, as well as in Canada and New Zealand.

We believe that the TSUBO and Ahnu brands complement our existing portfolio of lifestyle brands, and that the TSUBO and Ahnu brands target consumer, product selection, industry niche and relative under-penetration in the marketplace make these brands a good fit for us. We expect to leverage our design, marketing and distribution capabilities to grow these brands into meaningful brands over the next several years, consistent with our mission to build niche brands into global market leaders. Nevertheless, we cannot assure investors that our efforts will be successful.

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eCommerce Overview

Our eCommerce business, which sells all of our primary brands, enables us to meet the growing demand for these products, sell the products at retail prices and provide significant incremental operating income. The eCommerce business enables us to interact and reinforce our relationships with the consumer. Our Teva and UGG Australia websites both won BizRate s Circle of Excellence Platinum Awards for both 2007 and 2008. The award recognizes online retailers with top customer satisfaction ratings. In recent years, our eCommerce business has had significant revenue growth, much of which occurred as the UGG brand gained popularity and as consumers continued to increase usage of the internet for footwear and other purchases.

Managing our eCommerce business requires us to focus on the latest trends and techniques for web design, to generate internet traffic to our websites, to effectively convert website visits into orders, and to maximize average order sizes. We plan to continue to grow our internet business through improved website features and performance, increased marketing and international websites. Overall, our eCommerce business benefits from the strength of our brands and, as we grow our brands over time, we expect this division to continue to be an important segment of our business. Nevertheless, we cannot assure investors that eCommerce sales will continue to grow at their recent pace or that revenue from our eCommerce business will not at some point decline.

Retail Stores Overview

Since spring 2008, we have opened five new concept stores: San Francisco, New York City, Beijing, and two in London; and we opened our sixth retail outlet store in New Jersey. As of March 31, 2009, we have a total of 13 retail stores worldwide. Continuing to build on the success of our existing UGG Australia stores, in 2009, we plan to open two additional domestic stores, the first being our seventh retail outlet to be located in the Desert Hills Premium Outlets in Cabazon, California. Internationally, our stores in the UK and China were successful in their first holiday season. For 2009, we plan to continue to expand by opening five new stores: one in Japan, one in China, and three in the UK. In early May 2009, we took over the Japan store from our Japanese distributor and reopened it as a company-owned store.

In July 2008, we entered into a joint venture agreement with an affiliate of Stella International Holdings Limited, or Stella International, for the opening of retail stores and wholesale distribution for the UGG brand in China. Under this agreement, we opened our first UGG Australia concept store in Beijing in December 2008. The joint venture is owned 51% by Deckers and 49% by Stella International.

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 provide us with incremental annual operating income. In addition, our UGG Australia concept stores allow us to showcase our entire line, whereas a retailer may not carry the whole line.

Seasonality

Our business is seasonal, with the highest percentage of UGG brand net sales occurring in the third and fourth quarters of each year and the highest percentage of Teva brand net sales occurring in the first and second quarters. To date, our other brands have not had a seasonal impact on the Company.

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	2009	
	First Quarter	
Net sales	$	134,226
Income from operations	$	19,326

	2008							
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
Net sales	$	97,535	$	91,116	$	197,288	$	303,506
Income (loss) from operations*	$	17,060	$	(6,944)	$	43,081	$	63,722

	2007							
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
Net sales	$	72,575	$	52,730	$	129,381	$	194,243
Income from operations	$	15,072	$	2,864	$	30,660	$	56,957

* Included in income (loss) from operations in the second quarter of 2008 is a $14,900 impairment loss on our Teva trademarks. Included in the fourth quarter of 2008 is a $20,925 impairment loss on our Teva trademarks, Teva goodwill, and TSUBO goodwill.

With the dramatic growth in the UGG brand in recent years, combined with the introduction of a fall Teva product line, 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 2009, we currently expect this trend to continue. Nonetheless, actual results could differ materially depending upon the economic environment, 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 II, Item 1A, Risk Factors.

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Results of Operations

The following table sets forth certain operating data for the periods indicated.

	Three Months Ended March 31, 2009	2008
Net sales by location:		
U.S.	$ 102,011	$ 78,691
International	32,215	18,844
Total	$ 134,226	$ 97,535
Net sales by product line and eCommerce and retail store business:		
UGG:		
Wholesale	$ 62,985	$ 35,382
eCommerce	14,581	14,174
Retail stores	13,803	5,198
Total	91,369	54,754
Teva:		
Wholesale	34,637	36,809
eCommerce	871	869
Retail stores	57	48
Total	35,565	37,726
Simple:		
Wholesale	3,654	4,388
eCommerce	667	593
Retail stores	75	74
Total	4,396	5,055
Other:		
Wholesale	2,829	
eCommerce	67	
Total	2,896	
Total	$ 134,226	$ 97,535
Income (loss) from operations by product line and eCommerce and retail store business:		
UGG wholesale	$ 27,393	$ 16,653
Teva wholesale	7,810	8,838
Simple wholesale	(2,475)	53
Other wholesale	(1,035)	
eCommerce	4,927	5,193
Retail stores	1,016	269
Unallocated overhead costs	(18,310)	(13,946)
Total	$ 19,326	$ 17,060

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The following table sets forth certain data as a percentage of net sales for the periods indicated, and the percent change in dollars of each item between the periods.

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	Percent Change 2009 to 2008
Net sales	100.0%	100.0%	37.6%
Cost of sales	56.1	52.7	46.6
Gross profit	43.9	47.3	27.7
Selling, general and administrative expenses	29.5	29.8	36.1
Income from operations	14.4	17.5	13.3
Other income, net	(0.4)	(1.6)	(62.8)
Income before income taxes	14.8	19.1	6.7
Income taxes	5.6	7.6	2.7
Net income	9.2	11.6	9.4
Less: net income attributable to the noncontrolling interest			*
Net income attributable to Deckers Outdoor Corporation	9.2%	11.6%	9.3%

* Calculation of percentage change is not meaningful.

Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

Overview. For the three months ended March 31, 2009, we had net sales of $134,226 and income from operations of $19,326, compared to net sales of $97,535 and income from operations of $17,060 for the three months ended March 31, 2008. The increase in net sales was primarily due to an increase in UGG product sales. The increase in income from operations resulted primarily from the increase in net sales, partially offset by a lower gross margin and higher selling, general and administrative expenses.

Net Sales. Net sales increased by $36,691, or 37.6%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. This increase was primarily driven by strong sales for the UGG brand. In addition, our weighted-average wholesale selling price per pair increased 22.0% to $28.70 for the three months ended March 31, 2009 from $23.52 for the three months ended March 31, 2008, resulting primarily from higher UGG sales, which generally carry a higher average selling price. During the quarter, we experienced an increase in the number of pairs sold of our UGG brand, as well as contributions from our new brands, partially offset by a decrease in the number of pairs sold of our Simple and Teva brands, resulting in an 11.8% overall increase in the volume of footwear sold for all brands to approximately 3.8 million pairs for the three months ended March 31, 2009 compared to approximately 3.4 million pairs for the three months ended March 31, 2008.

Wholesale net sales of our UGG brand increased by $27,603, or 78.0%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to an increase in the total number of pairs sold both domestically and internationally. We cannot assure investors that UGG brand sales will continue to grow at their past pace or that revenue from UGG products will not at some point decline.

Wholesale net sales of our Teva brand decreased by $2,172, or 5.9%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to a decrease in the number of pairs sold, partially offset by an increase in the weighted-average wholesale selling price per pair.

Wholesale net sales of our Simple brand decreased by $734, or 16.7%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to a decrease in the weighted-average wholesale selling price per pair as well as a decrease in the number of pairs sold.

Wholesale net sales of our other brands, which we did not own during the three months ended March 31, 2008, were $2,829 for the three months ended March 31, 2009.

Net sales of our eCommerce business increased by $550, or 3.5%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The increase in net sales included an increase in UGG brand eCommerce sales of $407, or 2.9%, flat Teva brand eCommerce sales, an increase in Simple brand eCommerce sales of $74, or 12.5%, and other brands eCommerce sales of $67. With the decline in the economy, we do not expect our historical growth rates to continue and cannot assure investors that our eCommerce sales will continue to increase.

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Net sales of our retail store business increased by $8,615, or 161.9%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The increase in net sales was driven by an increase in sales of UGG products of $8,605, or 165.5%. The increase in UGG sales was partially due to the addition of six new stores opened since March 31, 2008. We do not expect this growth rate to continue because as we increase the number of our stores, each new store will have less proportional impact on our growth rate. For those stores that were open during the full first quarter of 2008 and 2009, same store sales grew by 29.3%. Nevertheless, we cannot assure investors that retail store sales will continue to grow at their recent pace or that revenue from our retail store business will not at some point decline.

International sales, which are included in the segment sales above, for all of our products combined increased by $13,371, or 71.0%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, representing 24.0% of net sales for the three months ended March 31, 2009 compared to 19.3% of net sales for the three months ended March 31, 2008. The majority of the international sales growth was from the UGG brand in each of our international markets, led by the European region.

Gross Profit. Gross profit increased by $12,765, or 27.7%, for the three months ended March 31, 2009, compared to the three months ended March 31, 2008. As a percentage of net sales, gross margin decreased to 43.9% for the three months ended March 31, 2009, compared to 47.3% for the three months ended March 31, 2008, primarily due to our wholesale business growing at a higher rate than our eCommerce business for the first quarter of 2009 versus 2008. In addition, closeout sales were higher in the first quarter of 2009 compared to 2008. Also, first quarter 2008 gross margins were positively impacted by a reduction in the estimates for sales returns. Our gross margins fluctuate based on several factors, and we expect our gross margin to increase slightly for the full year of 2009 compared to 2008.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, or SG&A, increased by $10,499, or 36.1%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. As a percentage of net sales, SG&A decreased slightly to 29.5% for the three months ended March 31, 2009 compared to 29.8% for the three months ended March 31, 2008. The planned increase in SG&A in absolute dollars resulted primarily from an increase in payroll expenses, marketing expenses, including approximately $2,000 of additional marketing investments for our Simple and TSUBO brands, and six new retail stores that were not open in the first quarter of 2008.

Income from Operations. Income from operations increased by $2,266, or 13.3%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. This increase is due to the increase in net sales, partially offset by the lower gross margin and higher selling, general and administrative expenses.

Income from operations of UGG brand wholesale increased by $10,740, or 64.5%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. The increase was primarily the result of the higher sales volumes as well as lower bad debt expenses and lower divisional selling expenses, partially offset by lower gross margins and increased marketing and promotional expenses.

Income from operations of Teva brand wholesale decreased by $1,028, or 11.6%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. This decrease resulted primarily from lower sales and gross margins and increased bad debt expenses, partially offset by decreased division expenses including our portion of the production costs for the documentary IMAX film, *Grand Canyon Adventure, River at Risk* in the three months ended March 31, 2008.

Loss from operations of Simple brand wholesale was $2,475 for the three months ended March 31, 2009 compared to income from operations of $53 for the three months ended March 31, 2008. This decline in income from operations was primarily due to lower gross margins attributed to an increased impact of closeout sales, increased inventory write-downs and lower sales. In addition, we recognized our planned increase in marketing and promotional expenses.

Loss from operations of our other brands wholesale was $1,035 for the three months ended March 31, 2009. We are implementing a new marketing campaign and investing in re-launching our TSUBO brand, since our acquisition in May 2008. Our Ahnu brand is still a new brand in the marketplace. Because of these reasons, as well as the economic recession, we expect to continue reporting a loss from operations for our other brands for at least the remainder of 2009.

Income from operations of our eCommerce business decreased by $266, or 5.1%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. This was due to slightly lower gross margins and higher operating costs, partially offset by the increase in net sales.

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Income from operations of our retail store business increased by $747, or 277.7%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. This was primarily due to the increase in net sales, partially offset by lower domestic gross margins and higher operating expenses primarily related to our new store openings.

Unallocated overhead costs increased by $4,364, or 31.3%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, resulting primarily from higher corporate payroll costs resulting from planned increase in headcount and higher distribution center costs, both related to our continued growth.

Other (Income) Expense, Net. Interest income decreased by $793, or 57.1%, for the three months ended March 31, 2009, compared to the three months ended March 31, 2008. The decrease resulted primarily from a shift in our investment mix to a greater percentage of safer, more liquid and lower yielding investments, as well as lower overall market interest rates.

Income Taxes. Income taxes for the interim periods are computed using the effective tax rate estimated to be applicable for the full fiscal year, which is subject to ongoing review and evaluation by management and can vary from quarter to quarter. Income tax expense and effective income tax rates were as follows: