DECKERS OUTDOOR CORP
Form 10-K
May 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant To Section 13 or 15(d)
of the Securities Exchange Act of 1934

For The Fiscal Year Ended March 31, 2018

Commission File Number: 001-36436

DECKERS OUTDOOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	95-3015862
(State of incorporation)	(I.R.S. Employer Identification No.)

250 Coromar Drive, Goleta, California 93117
(Address of principal executive offices)

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

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

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

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

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

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

Indicate by check mark 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.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
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

At September 30, 2017, the last business day of the registrant's 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 $2,180,262,000, 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 on that date, which was $68.41. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of the close of business on May 11, 2018, the number of outstanding shares of the registrant's common stock, par value $0.01 per share, was 30,447,808.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement on Schedule 14A relating to the registrant's 2018 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 in 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.

DECKERS OUTDOOR CORPORATION AND SUBSIDIARIES
For the Fiscal Year Ended March 31, 2018
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*Not applicable.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on May 30, 2018 (Annual Report on Form 10-K), and the information and documents incorporated by reference in this Annual Report on Form 10-K, 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, 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,” “ “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, contain forward-looking statements relating to, among other things:

- the results of and costs associated with our restructuring and operating profit improvement plans;
- our global business, growth, operating, investing, and financing strategies;
- our product offerings, distribution channels, and geographic mix;
- consumer preferences with respect to our brands and products;
- the purchasing trends impacting the buying patterns of wholesale customers and retail consumers;
- the impact of seasonality and weather on consumer behavior and our results of operations;
- expectations regarding and trends affecting our financial condition, operating results, capital expenditures, liquidity, or cash flows;
- expectations relating to the expansion of Direct-to-Consumer capabilities;
- our plans to consolidate certain United States distribution center operations;
- overall global economic trends, including foreign currency exchange rate fluctuations;
- reliability of overseas factory production and storage;
- availability and cost of raw materials;
- the value of goodwill and other intangible assets, and future write-downs or impairment charges;
- changes impacting our tax liability and effective tax rates, including as a result of changes in tax laws or treaties, foreign income or loss, and the realization of net deferred tax assets;
- the repatriation of certain cash and cash equivalents balances currently domiciled outside the United States and the related tax impact on us of that decision;
- potential impacts of our ongoing operational system upgrades;
- commitments and contingencies, including purchase obligations for product and sheepskin; and
- the impact of recent accounting pronouncements.

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 Part I, Item 1A, "Risk Factors," and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Annual Report on Form 10-K, as well as in our other filings with the SEC. You should read this Annual Report on Form 10-K, including the information and documents incorporated by reference herein, 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 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 New York Stock Exchange, we expressly disclaim any intent or obligation to update any forward-looking statements. We qualify all of our forward-looking statements with these cautionary statements.

PART I

References in this Annual Report on Form 10-K to "Deckers," "we," "our," "us," or the "Company" refer to Deckers Outdoor Corporation, together with its consolidated subsidiaries. UGG® (UGG), Teva® (Teva), Sanuk® (Sanuk), Hoka One One® (Hoka), Koolaburra® (Koolaburra), Ahnu® (Ahnu) and UGGpure™ (UGGpure) are some of our trademarks. Other trademarks or trade names appearing elsewhere in this report are the property of their respective owners. Solely for convenience, the trademarks and trade names in this Annual Report on Form 10-K are referred to without the ® and™ symbols, but such references should not be construed as any indicator that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto.

Unless otherwise specifically indicated, all dollar amounts in Items 1, 1A, 2, and 3 herein are expressed in thousands, except for per share data. The defined periods for the fiscal years ended March 31, 2018, 2017, and 2016 are stated herein as "year ended" or "years ended".

Item 1. Business

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 market our products primarily under five proprietary brands: UGG, Koolaburra, Hoka, Teva and Sanuk. We believe that our products are distinctive and appeal broadly to women, men and children. We sell our products through quality domestic and international retailers, international distributors, and directly to our consumers both domestically and internationally through our Direct-to-Consumer (DTC) business, which is comprised of our retail stores and E-Commerce websites. 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 manufacturers, primarily in Asia.

Recent Developments

Restructuring Plan. In February 2016, we announced the implementation of a multi-year restructuring plan which is designed to realign our brands, optimize our retail store fleet, and consolidate our management and operations. As part of this restructuring plan, we realigned our brands across two groups: Fashion Lifestyle and Performance Lifestyle. The Fashion Lifestyle group includes the UGG and Koolaburra brands. The Performance Lifestyle group includes the Teva, Sanuk and Hoka brands. In general, the intent of the restructuring plan is to streamline brand operations, reduce overhead costs, create operating efficiencies and improve collaboration.

In connection with our restructuring plan, we have closed 32 retail stores as of March 31, 2018, including five stores in fiscal year 2016 and 20 in fiscal year 2017, and consolidated our brand operations and corporate headquarters. We have incurred cumulative restructuring charges of $55,324 through March 31, 2018, with $1,667, $28,984, and $22,824 of restructuring charges recorded in selling, general and administrative (SG&A) expense during the years ended March 31, 2018, 2017, and 2016, respectively, and $1,849 in cost of sales during fiscal year 2016 in the consolidated financial statements. We currently do not anticipate incurring material restructuring charges in future periods, though optimization of our owned retail stores remains a focus.

We anticipate closing stores or converting stores to partner retail stores in our wholesale channel, as we continue our strategy of retail store and fleet optimization. We continue to drive and are evolving our retail store and fleet optimization strategies in line with our long-term objectives, and we are targeting a global retail store count of approximately 125 owned stores. While we are seeing initial signs of improvement, our decision to open or close store locations will be evaluated based on the operating results of each store and our retail store and fleet optimization strategies, which may ultimately impact our global retail store count.

As a result of the implementation of our restructuring plan, we expect to realize an annualized gross SG&A expense savings in the consolidated statements of comprehensive income (loss) totaling approximately $85,000 by March 31, 2020. The SG&A expense savings are expected to be primarily derived from reductions in operating costs related to the termination of retail store leases and the conversion of certain of our foreign owned retail stores to partner retail stores, as well as a reduction in overhead costs, including payroll and related benefits, depreciation and amortization, and rent and occupancy costs, among others. As of March 31, 2018, we realized approximately $54,000 of annualized

SG&A expense savings out of the anticipated $85,000 of savings from our restructuring plan. We expect to realize approximately $31,000 of additional annualized SG&A expense savings from our restructuring plan. The additional annualized SG&A expense savings are expected to be primarily derived from further reductions in retail store-related costs, including those listed above. However, both the amount and timing of the actual savings we may achieve as a result of our restructuring plan are uncertain and are based upon numerous factors, including, but not limited to, the timing of lease terminations and store closures, the actual costs associated with closing or converting stores, and the actual and estimated results of operations of each store.

Refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 2, "Restructuring," of our consolidated financial statements in Part IV of this Annual Report on Form 10-K for further information on our restructuring efforts and the impact on our results of operations and reportable operating segments.

Operating Profit Improvement Plan. In addition to the approximate $85,000 of gross annualized SG&A expense savings expected from the implementation of our restructuring plan, as discussed above, we also expect that our other transformation initiatives, announced in February 2017, will result in approximately $65,000 of additional annualized cost of sales improvements and SG&A expense savings, for a total anticipated annual gross cost savings of approximately $150,000. Cost of sales improvements are expected to result from reducing product development cycle times, optimizing material yields, consolidating our factory base, and continuing to move product manufacturing outside of China. Further SG&A expense savings are expected to result from lower corporate infrastructure costs, process improvement efficiencies, and reduced unallocated indirect spend. We have achieved approximately 90% of the expected cost of sales improvements as of March 31, 2018. The remaining additional annualized costs of sales and SG&A expense savings are expected to be realized by the end of fiscal year 2020.

We expect that the approximate $150,000 of annual gross cost savings will result in approximately $100,000 of net annualized operating profit improvement (after reinvestment in marketing and other growth driving initiatives) by the end of fiscal year 2020. However, both the amount and timing of the actual operating profit improvements we may achieve as a result of these transformation initiatives are uncertain and are based upon numerous factors, including, but not limited to, the timing and success of certain production and inventory control improvements, the costs associated with improving and transitioning manufacturing operations, and the net impact of certain costs savings initiatives on our operating profit.

Products and Brands

We currently market our products primarily under five propriety brands, composed of our three primary brands and our other brands. Collectively, our brands compete across the fashion and casual lifestyle, outdoor, and running markets.

UGG. The UGG brand is one of the most iconic and recognized brands in our industry which highlights our 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, apparel and accessories with expanded product offerings and a growing global audience that attracts women, men and children. We intend to continue diversifying the UGG brand by driving more year-round product sales, including spring and summer footwear, men's products, apparel, home goods and accessories. The UGG brand is sold both domestically and internationally in key markets including the United States (US), United Kingdom (UK), Germany, China, Japan, and Canada, among others.

Teva. Teva is a modern active lifestyle brand, born from the outdoors and rooted in adventure. As the originator of the sport sandal, the Teva brand's product line now includes sandals, shoes, and boots.

During calendar year 2017, we began to leverage elements, including particular styles, of the Ahnu brand under the Teva brand. Effective as of the beginning of fiscal year 2018, operations for the Ahnu brand were discontinued and certain remaining styles are sold under the Teva brand.

Sanuk. Sanuk is a global lifestyle footwear brand rooted in Southern California surf culture. The brand has a history of product innovation and comfort with a full range of footwear.

Other Brands. Other brands consist of: Hoka, a line of premium, running footwear and apparel that offers maximal cushioning with minimal weight and is designed for runners of all capacities, and Koolaburra, a line of fashion casual footwear using sheepskin and other plush materials.

Sales and Distribution

US Distribution. In our wholesale channel, we distribute our products in the US through sales representatives, who are organized by account type or geographically and by brand. In addition to our wholesale channel, we also sell products directly to consumers through our DTC business.

Currently, our sales force is generally separated by brand, as each brand generally has certain specialty consumers. However, there is some overlap between the sales teams and customers, and we have aligned our brands' sales forces to position them for the future of the brands.

We distribute products sold in the US through our distribution centers in Camarillo and Moreno Valley, California, as well as through a third-party logistics provider (3PL) in Pennsylvania. Our distribution centers feature a warehouse management system that enables us to efficiently pick and pack products for direct shipment to customers.

While we continue to operate our distribution center in Camarillo, we are currently working to move all of our Camarillo distribution operations to our Moreno Valley location by the end of calendar year 2019. In June 2017, we exercised our option to expand and extend the lease of our warehouse and distribution center located in Moreno Valley, California through June 2028. Refer to Note 7, "Commitments and Contingencies," of our consolidated financial statements in Part IV of this Annual Report on Form 10-K for further disclosure and discussion.

International Distribution. Internationally, in our wholesale channel, we distribute our products through independent distributors and wholly-owned subsidiaries in many regions and countries, including Europe, Asia-Pacific, Latin America, and Canada, among others. We also sell products internationally, particularly in China, through partner retail stores, which are branded stores that are wholly-owned and operated by third parties. When a partner retail store is opened or a company-owned retail store is converted into a partner retail store, the related sales are recorded in our UGG or Sanuk brands wholesale reportable operating segment. In addition, in certain countries we sell products through our DTC business. For our wholesale and DTC businesses, we distribute our products through a number of distribution centers managed by 3PLs in certain international locations.

UGG Wholesale. We sell the UGG brand primarily through domestic higher-end department stores such as Nordstrom, Dillard's, and Macy's, as well as lifestyle retailers such as Journeys, and online retailers such as Amazon and Zappos.com. As the retail marketplace continues to evolve and change to reflect changing consumer preferences, we continually review and evaluate our UGG wholesale distribution approach and segmentation.

Teva Wholesale. We sell our Teva brand footwear primarily through specialty outdoor, sporting goods, and department stores, including retailers such as REI, Famous Footwear, DSW, and online retailers such as Amazon and Zappos.com.

Sanuk Wholesale. We sell our Sanuk brand footwear primarily through domestic independent action sports and outdoor specialty footwear retailers and larger national retail chains, including Journeys, Dillard's, DSW, REI, and online retailers such as Amazon and Zappos.com.

Other Brands Wholesale. Our other brands are sold primarily through domestic specialty running and department stores, outdoor and independent specialty retailers, and through online retailers. Key accounts of the Hoka brand include Running Warehouse, Road Runner Sports, Running Specialty Group, REI, and Zappos.com. Key accounts of the Koolaburra brand include Kohl's and Rack Room Shoes.

Direct-to-Consumer. Our DTC business is comprised of our retail stores and E-Commerce websites. As a result of our evolving Omni-Channel strategy, we believe that our retail stores and websites are largely intertwined and interdependent. We believe that many consumers interact with both our brick and mortar stores and our websites before making purchasing decisions. For example, consumers may feel or try on products in our retail stores and then place an order online later. Conversely, they may initially research products online, and then view inventory availability by store location and make a purchase in store. Some examples that demonstrate the extent to which the sales channels are combined and help improve our inventory productivity include the following:

- “UGG Rewards”: We have implemented a consumer loyalty program under which points and awards are earned across the DTC business.

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- “Infinite UGG”: We provide online shopping access inside retail stores for all SKUs available on our E-Commerce websites.

- "Ship from Store": Inventory that is available in our stores, but is out of stock online can be shipped from our stores. Future advancements in this capability will use algorithms to select the optimal fulfillment source.

- "UGG Closet": A limited E-Commerce outlet channel which we have offered since December 2016. The online portal functions similarly to an outlet store in that it provides a way to closeout inventory directly to consumers.

- “Buy Online / Return in-Store”: Our consumers can buy online and return products to the store.

- “Click and Collect”: Our consumers can buy online and have products delivered to certain of our retail stores for pick-up.

- “Retail Inventory Online”: Our consumers can view specific store location inventory online before visiting the store.

Our retail stores enable us to expose consumers to a greater breadth of product, directly impact our consumers' experiences, sell the products at retail prices and generate greater gross margins. Our retail stores are predominantly UGG brand concept and UGG brand outlet stores. Through our outlet stores, we sell some of our discontinued styles from prior seasons, full price in-line products, as well as products made specifically for the outlet stores. At March 31, 2018, we had a total of 165 retail stores worldwide, which includes 98 concept stores and 67 outlet stores. Included in the total count of retail stores worldwide are concession stores, which are concept stores that are operated by us within a department or other store, which we lease from the store owner by paying a percentage of concession store sales. Partner retail stores are excluded from the total count of worldwide company-owned retail stores.

Refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Annual Report on Form 10-K for further disclosure and discussion.

Product Design and Development

The design and development functions for all of our brands are performed by a combination of internal design and development staff and outside freelance designers. Refer to Note 1, "General," of our consolidated financial statements in Part IV of this Annual Report on Form 10-K for further information on the research and development costs we have incurred for the last three fiscal years.

To ensure quality, consistency, and efficiency in our product design and development process, we continually evaluate the availability and cost of raw materials, the capabilities and capacity of our independent manufacturers and the target retail price of new products. The design and development staff works closely with brand management to develop new styles for our product lines. Throughout the development process, we have multiple design and development reviews, which we then coordinate with our independent manufacturers.

Manufacturing and Supply Chain

We do not manufacture our products. We outsource production to independent manufacturers, primarily in Asia. We require our independent 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 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, Anti-Corruption Policy, Conflict Minerals Policy, and other compliance policies and procedures as a condition of doing business with us.

Production 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 on-site supervisory offices in Pan Yu City, China and Hai Phong City, Vietnam, which together serve as a link to our independent manufacturers. We believe this regional presence provides predictability of material availability, product flow and adherence to final design specifications. The majority of the materials and components used in the production of our products by these independent manufacturers are purchased from independent suppliers that we designate.

At our direction, our manufacturers currently purchase the majority of the sheepskin used in our products from two tanneries in China, which source their sheepskin 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 purchase commitments with certain sheepskin suppliers. We believe current supplies are sufficient to meet our current and anticipated demand, but we continue to investigate our options to accommodate our expected growth or unexpected supply chain issues. Refer to Note 7, "Commitments and Contingencies," of our consolidated financial statements in Part IV of this Annual Report on Form 10-K for further information on our minimum purchase commitments.

Beginning in 2013, in an effort to partially reduce our dependency on sheepskin, we began using a proprietary new raw material, UGGpure, which is a wool woven into a durable backing, in some of our UGG brand products. Excluding sheepskin and UGGpure, we believe that substantially all raw materials and components used to manufacture our footwear, apparel and accessories, including wool, rubber, leather, and nylon webbing, are generally available from multiple sources at competitive prices. 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.

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 routinely inspect our products upon arrival at our distribution centers.

Corporate Responsibility

Community Outreach. During fiscal year 2018, we donated approximately $1,123 to 176 nonprofit organizations. The end of calendar year 2018 was a particularly difficult time for California. Faced with various natural disasters from fires to mudslides, we focused much of our efforts on serving our local Santa Barbara, California community. During fiscal year 2018, 8% of our charitable contributions were dedicated to environmental impact mitigation efforts because we understand the importance of protecting our planet. We encourage employees to volunteer by compensating them for up to 24 hours of volunteer time each fiscal year.

Sustainability. As a global leader in designing, marketing and distributing innovative footwear, apparel and accessories, our global scale is significant. Equally significant is the responsibility we have to set an example in our industry by advancing sustainable business, and we believe in developing quality products while striving for minimal environmental impact. In October 2016, we announced our official participation in the United Nations Global Compact, the world's largest voluntary corporate citizenship initiative. As part of this initiative, we adopted Sustainable Development Goals in the following areas:

- material sourcing;
- waste and chemical management;
- water quality impact;
- human rights;
- energy usage by us and our manufacturing partners; and
- gender equality and quality education.

The main focus of our sustainability efforts is on our product materials and supply chain. During fiscal year 2018, we sourced 99.2% of our leather supplies from Leather Working Group certified tanneries, which maintain protocols that promote sustainable and appropriate environmental business practices within the leather industry. We are also taking a closer look into all of our materials, from packaging to product, so that we can set further sustainability targets in fiscal year 2019. We also have an Animal Welfare Policy which sets forth strict guidelines for the purchase of materials used in our products.

We are committed to measurable sustainability action in our corporate locations, retail store spaces, and distribution center operations. Our corporate headquarters is Leadership in Energy and Environmental Design (commonly referred to as LEED) certified and, during fiscal year 2018, we installed solar panels to help offset approximately 40% of our electrical energy usage. We also continually measure electricity usage at our distribution center locations and retail store operations and strive to reduce our environmental footprint whenever possible. We

have implemented waste diversion efforts at our corporate locations and have adopted a Paper and Forest Procurement Policy, which sets forth our commitment to purchasing paper products with a minimum of 30% post-consumer recycled content.
We are equally dedicated to sustainability actions within our brands' sectors. Below are some of the ways our brands are working to make a difference:

- On behalf of the UGG brand, we contribute to the HERproject, a collaborative initiative managed by Business for Social Responsibility (commonly referred to as BSR) that strives to empower low-income women working in global supply chains. We also involve the UGG brand in the Textile Exchange’s Kickstart Program, which accelerates the availability of Responsible Wool Standards (commonly referred to as RWS) certified wool into supply chains.

- On behalf of the Teva brand, we support the Los Padres ForestWatch, as well as Conservation Alliance, whose mission is to partner with organizations to protect wild places for their habitat and recreation values.

- On behalf of the Sanuk brand, we have teamed up with the Surfrider Foundation, a non-profit environmental organization dedicated to the protection and enjoyment of our oceans, waves and beaches.

- We support Camber Outdoors, the only national organization dedicated to achieving women’s equality in the active-outdoor industries, on behalf of the Hoka, Sanuk and Teva brands.

The work that we have done to date has allowed us to make great strides in promoting responsible stewardship and our Sustainable Development Goals continue to serve as guideposts for our future progress.

Seasonality

Our business is seasonal, with the highest percentage of UGG brand net sales occurring in the quarters ending September 30th and December 31st and the highest percentage of Teva and Sanuk brand net sales occurring in the quarters ending March 31st and June 30th. Due to the size of the UGG brand relative to our other brands, our aggregate net sales in the quarters ending September 30th and December 31st have significantly exceeded net sales in the quarters ending March 31st and June 30th. For further discussion, including regarding the factors that may cause actual results to differ materially from our expectations, refer to Part I, Item 1A, "Risk Factors," and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Annual Report on Form 10-K.

Competition

The markets that we operate in 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 and the growth of E-Commerce has made it easier for new companies to enter the markets in which we compete, further increasing competition in the footwear, apparel and accessories industry. In particular, and in part due to the popularity of our UGG brand 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 brand products. We believe that our ability to successfully compete depends on numerous factors, including responding to consumer preferences, producing appealing product, and pricing products competitively, among others. Refer to Part I, Item 1A, "Risk Factors," of this Annual Report on Form 10-K for further discussion of how we compete.

Patents and Trademarks

We utilize trademarks for 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 products, promoting our brands, and distinguishing our products from the products of others. We currently hold trademark registrations for "UGG," "Teva," "Sanuk," "Hoka One One," "Koolaburra," "Ahnu," "UGGpure," and other marks in the US, and for certain of the marks in many other countries, including Canada, China, the UK, various countries in the European Union, Japan and Korea. As of March

31, 2018, we hold 184 designs and inventions with corresponding design or utility patent registrations, plus 9 designs and inventions which are currently pending registration. These patents expire at various times. We regard our proprietary rights as valuable assets and vigorously protect such rights against infringement by third parties.

Inventory Management

We manage our inventory levels based on existing orders, anticipated sales and the rapid-delivery requirements of our customers. We have put in place systems and processes designed to improve our forecasting and supply planning capabilities. In addition, we believe that added discipline around the purchasing of product, production lead time reduction, and better planning and execution in selling of excess inventory through our outlet stores and other liquidation channels are key areas of focus that will enhance inventory performance.

Our practice, and the general practice in the footwear, apparel and accessories industry, is to offer retail customers the right to return defective or improperly shipped merchandise. As it relates to new product introductions, which can often require large initial launch shipments, we commence production before receiving orders for those products from time to time. This can affect our inventory levels as we build pre-launch quantities.

Backlog

We encourage our wholesale and distributor customers to place a significant portion of orders as pre-season orders, which are typically placed up to 12 months prior to the anticipated shipment date, as well as in-season fill-in orders that can be shipped immediately. We work with our customers through pre-season programs to enable us to better plan our production schedule, inventory and shipping requirements.

We have historically defined backlog as unfilled customer orders from our wholesale customers and distributors as of any particular date, which represent orders scheduled to be shipped at a future date, some of which are subject to cancellation prior to shipment. Effective as of the end of fiscal year 2018, our calculation of backlog also includes bulk orders which generally comprise larger volume orders from significant customer accounts. These types of orders typically have terms that allow customers to vary the location and timing of shipments.

As of March 31, 2018, our backlog was approximately $855,000. If our backlog as of March 31, 2017 had been calculated in the same manner, on a comparable basis, this represents an approximate 4% year-over-year increase over our backlog as of March 31, 2017.

We believe backlog is an imprecise indicator of our actual product shipments and future operating results and is not material to an overall understanding of our business, especially given that backlog excludes sales within our DTC reportable operating segment as well as in-season orders. The backlog as of a particular date is affected by a number of factors, including seasonality, the timing of customer orders, the timing of product shipments, the potential that certain orders may be cancelled, and our manufacturing schedule. As a result, comparisons of backlog from period-to-period are not necessarily indicative of our future operating results.

Employees

At March 31, 2018, we employed approximately 3,500 employees in North America, Europe, and Asia, none of whom were represented by a union. This figure includes approximately 1,700 employees in our retail stores worldwide, which includes part-time and seasonal employees.

Financial Information about Reportable Operating Segments and Geographic Areas

Our five reportable operating 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 DTC business. The majority of our sales and long-lived assets are in the US. Within our consolidated financial statements in Part IV of this Annual Report on Form 10-K, refer to Note 12, "Reportable Operating Segments," for further discussion of our reportable operating segments and to Note 13, "Concentration of Business," for financial information about geographic areas and concentration of related business risks.

Government Regulation

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. Such documents are available as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission (SEC). 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 a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

We also make the following corporate governance documents available through our website: Audit Committee Charter, Compensation Committee Charter, Corporate Governance Charter, Code of Ethics, Accounting and Finance Code of Conduct, Corporate Governance Guidelines, and Conflict Minerals Policy.

The information contained on or accessed through our website does not constitute part of this Annual Report on Form 10-K, and references to our website address in this Annual Report on Form 10-K are inactive textual references only.

Item 1A. Risk Factors

Our short and long-term success is subject to numerous risks and uncertainties, many of which involve factors that are difficult to predict or beyond our control. Investing in our common stock involves substantial risk. Before making a decision to invest in, hold or sell our common stock, stockholders and potential stockholders should carefully consider the risks and uncertainties described below, in addition to the other information contained in or incorporated by reference into this Annual Report on Form 10-K, as well as the other information we file with the SEC. If any of the following risks are realized, our business, financial condition, results of operations and prospects could be materially and adversely affected. In that case, the value of our common stock could decline and stockholders may lose all or part of their investment. Furthermore, additional risks and uncertainties of which we are currently unaware, or which we currently consider to be immaterial, could have a material adverse effect on our business. Refer to the section entitled "Cautionary Note Regarding Forward-Looking Statements" on page 2 of this Annual Report on Form 10-K.

Many of our products are inherently seasonal, and the sales of our products are highly sensitive to weather conditions, which makes it difficult to anticipate consumer demand for our products, manage our expenses, and forecast our financial results.

Due to the nature of many of our product offerings, sales of our products are inherently seasonal. Historically, the highest percentage of UGG brand net sales have occurred in the fall and winter months (our second and third fiscal quarters), and the highest percentage of Teva and Sanuk brand net sales have occurred in the spring and summer months (our first and fourth fiscal quarters). Due to the size of the UGG brand relative to our other brands, this trend has resulted in our aggregate net sales for the second and third fiscal quarters significantly exceeding our net sales in the first and fourth fiscal quarters. While we have taken steps to diversify our product offerings, both by creating more year-round styles and expanding product offerings within our existing brands, and by acquiring and developing new brands, we expect this trend to continue for the foreseeable future.

In particular, sales of our products are highly sensitive to weather conditions, which are difficult to predict and beyond our control. For example, extended periods of unseasonably warm weather during the fall or winter months may significantly reduce demand for our UGG brand products. Unexpected weather patterns may continue to have a material, negative impact on our financial condition and results of operations. In addition, the unpredictability of weather conditions makes it more difficult for us to accurately forecast our financial results and to meet the expectations of analysts and investors.

As a result of the relative concentration of our sales in certain months of the year, factors which specifically impact consumer spending patterns in those months, such as unexpected weather patterns, declines in consumer confidence or worsening economic conditions, will have a disproportionate impact on our business and could result in our failure to achieve financial performance that is in line with our expectations.

The footwear, apparel and accessories industry is subject to rapid changes in consumer preferences, and if we do not accurately anticipate and promptly respond to consumer demand, including through effective marketing, we could lose sales, our relationships with customers could be harmed and our brand loyalty could be diminished.

The footwear, apparel and accessories industry is subject to rapid changes in consumer preferences and tastes, which make it difficult to anticipate demand for our products and forecast our financial results. We believe there are many factors that may affect the demand for our products, including:

- seasonality, including the impact of anticipated and unanticipated weather conditions;
- continued consumer acceptance of our existing products and acceptance of our new products;
- consumer demand for products of our competitors;
- the implementation of a segmentation approach to distribution with respect to certain of our brands and products;
- consumer perception and preference for our brands;
- the extent to which consumers view certain of our products as substitutes for other products we manufacture;
- publicity, including social media, related to us, products, brands, and marketing campaigns;
- the life cycle of our products and consumer replenishment behavior;
- evolving fashion and lifestyle trends, and the extent to which our products reflect these trends;
- brand loyalty;
- changes in consumer confidence and buying patterns, and other factors that impact discretionary income and spending; and
- changes in general economic and market conditions.

Consumer demand for our products depends in part on the continued strength of our brands, which in turn depends on our ability to anticipate, understand and promptly respond to the rapidly changing preferences and fashion tastes of footwear, apparel and accessories consumers. As our brands and product offerings continue to evolve, it is necessary for our products to appeal to an even broader range of consumers whose preferences cannot be predicted with certainty. For example, many UGG brand products include a fashion element and could go out of style at any time. Furthermore, we are dependent on consumer receptivity to our new products and to the marketing strategies we employ to promote those products. Consumers may not purchase new models and styles of footwear, apparel and accessories in the quantities projected or at all. If we fail to react appropriately to changes in consumer preferences and fashion trends, consumers may consider our brands and products to be outdated or associate our brands and products with styles that are no longer popular, which may adversely affect our overall financial performance.

Our success is driven to some extent by brand loyalty, and there can be no assurance that consumers will continue to prefer our brands. The value of our brands is largely based on evolving consumer perceptions, and one or more missteps with respect to factors such as product quality, product design or customer service, could result in negative perceptions and a corresponding loss of brand loyalty and value. In addition, negative claims or publicity regarding us, our products, our brands, our marketing campaigns or our celebrity endorsers, could adversely affect our reputation and sales regardless of whether such claims are accurate. Social media, which accelerates the dissemination of information, can increase the challenges of containing any such negative claims. If consumers begin to have negative perceptions of our brands, whether or not warranted, our brand image would become tarnished and our products would become less desirable, which could have a material adverse effect on our business.

If we are unsuccessful in implementing our ongoing restructuring and operating profit improvement plans, we may incur significant charges and costs without any corresponding benefits to our business, in which case our financial condition and operating results may be adversely affected.

We are in the ongoing process of restructuring our business in order to streamline brand operations, reduce overhead costs, create operating efficiencies and improve collaboration. This includes optimizing our retail store fleet and consolidating offices and operations, including the closure of facilities and relocation of employees to realign our brands across our Fashion Lifestyle and Performance Lifestyle groups. Key components to executing this plan include organizational changes, continued retail store closures, and conversion of owned stores to partner retail stores, among others.

As part of our ongoing restructuring plan, we have incurred significant restructuring charges and other costs, including SG&A expenses related to the write-off of retail store related assets, the early termination of retail store leases, employee severance costs, termination of various contracts, and the disposal of equipment and software impairments, among others. There can be no assurance that the benefits from these restructuring efforts, including from any potential reduction in overhead costs or improvement in operating efficiencies, will be sufficient to offset the restructuring charges and other costs that we have incurred. If we fail to realize the anticipated benefits from these measures, our financial condition and operating results may be adversely affected. While we do not currently anticipate incurring material restructuring charges in future periods, retail store and fleet optimization remains a focus. However, the potential benefits that we may realize from our retail store and fleet optimization efforts are uncertain as a result of numerous factors, including, but not limited to, the timing of lease terminations and store closures, the actual costs associated with closing or converting stores and the timing of the realization of those costs, and the actual and estimated results of operations of each store.

We have also begun implementing a plan to drive operating profit improvement through a combination of both cost of sales improvements and SG&A expense savings. However, there can be no assurance that we will be successful in realizing cost of sales improvements, especially if we fail to reduce product development cycle times, optimize material yields, consolidate our factory base, or move product manufacturing outside of China. Further, if we fail to execute on our plans to lower corporate infrastructure costs, process improvement efficiencies, and reduced unallocated indirect spend, we may not achieve the SG&A expense savings which are a key component of our operating profit improvement plan. If we are unable to realize cost of sales improvements and SG&A expense savings in the amount or on the timeline which we expect, then we may not be able to achieve the estimated profitability improvements or other expected benefits of the plan. Further, the implementation of the plan may require additional investments and divert management’s time and resources, which may impede our ability to achieve our goal of driving operating profit improvement. Both the amount and timing of the actual operating profit improvements we may achieve as a result of these transformation initiatives are uncertain and are based upon numerous factors, including, but not limited to, the timing and success of certain production and inventory control improvements, the costs associated with improving and transitioning manufacturing operations, and the net impact of certain costs savings initiatives on our operating profit.

It may be difficult to identify new retail store locations that meet our requirements, and any new retail stores may not realize returns on our investments.

While we expect to close or relocate a number of retail stores, we may identify opportunities to open new retail stores in the future. Global store openings involve substantial investments, including those relating to 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. As we have experienced in the past, due to the high fixed cost structure associated with the retail business, the closure of a retail store can result in a significant negative financial impact, including lost sales, write-offs of retail store assets and inventory, lease termination costs, and severance costs. As a result of our ongoing retail store and fleet optimization plans, and in light of the significant costs and impairments that can be incurred upon the closure of a retail location, we expect to conduct a thorough diligence process and apply stringent financial parameters when assessing whether to open a new retail store location. However, there can be no assurance that any new retail location that we may identify will ultimately generate a positive return on our investment or that our investment in a brick and mortar retail store will increase our sales.

Furthermore, we license the right to operate retail stores for our brands to third parties through our partner retail program. We expect to increase both the number of third parties we engage within our partner retail program and the number of stores that they operate. We currently plan for most of the partner retail stores to be operated in international markets, with the largest increase anticipated to be in China. 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 or our failure to adequately monitor these third parties, which could result in reduced sales and cause our overall brand image to suffer.

We face intense competition from both established companies and newer entrants into the market, and our failure to compete effectively could cause our market share to decline, which would harm our financial condition and results of operations.

The footwear, apparel and accessories industry is highly competitive and we expect to continue to face intense competitive pressures. We believe that we compete on the basis of a number of factors, including our ability to:

- predict and respond to changing consumer preferences and tastes in a timely manner;
- produce products that appeal to consumers;
- produce products that meet our requirements and consumer expectations for quality;
- accurately predict and forecast consumer demand;
- ensure product availability;
- manage the impact of seasonality, including unexpected changes in weather conditions;
- maintain brand loyalty and authenticity;
- price our products in a competitive manner;
- implement our Omni-Channel strategy, including providing a unique customer service experience; and
- manage the impact of the rapidly changing retail environment on our business, including with respect to rising competition within the E-Commerce business.

Our inability to compete effectively with respect to one or more of these factors could cause our market share to decline, which would harm our financial condition and results of operations.

Our competitors include athletic and footwear companies, branded apparel and accessories companies, home goods companies, and retailers with their own private labels. In addition, these competitors include both established companies, as well as newer entrants into the market. In particular, we believe that, as a result of the growth of the UGG brand, certain competitors have entered into the marketplace specifically in response to the success of our brands, and that other competitors may do so in the future. A number of our larger competitors have significantly greater financial, technological, engineering, manufacturing, marketing, and distribution resources than we do, as well as greater brand awareness in the footwear, apparel and accessories markets. Our competitors' greater capabilities in these areas may enable them to more effectively compete on the basis of price and production, develop new products more quickly, identify or influence consumer preferences, and withstand periodic downturns in the footwear, apparel and accessories industry or in economic conditions generally. With respect to newer entrants into the market, we believe that access to offshore manufacturing and changes in technology will continue to make it easier and more cost effective for these companies to compete with us.

As a result of the competitive environment in which we operate, we have faced, and expect to continue to face, intense pricing pressure. For example, efforts by our competitors to dispose of their excess inventories may significantly reduce prices of competitive products, which may require us to reduce the pricing of our products in order to compete, or cause consumers to shift their purchasing decisions away from our products entirely. We have also faced, and expect to continue to face, intense pressure with respect to competition for key customer accounts and distribution channels. If we fail to compete effectively in the future, our sales could decline and our margins could be impacted, either of which could have a negative impact on our financial condition and results of operations.

If we are unsuccessful at improving our operational systems and our efforts do not result in the anticipated benefits to us or result in unanticipated disruption to our business, our financial condition and operating results could be adversely affected and our business may become less competitive.

We strive to improve, automate and streamline our operational systems, processes, infrastructure and management as part of our ongoing effort to improve the overall efficiency and competitiveness of our business. In 2016, we completed our business transformation project implementation, which included upgrading our Enterprise Resource Planning (ERP) systems, and inventory management and control systems. While these efforts resulted in improvements to our operational systems that have reduced our expenses, increased our efficiency and enhanced our ability to be competitive in the long term, we expect to continue to incur expenses to implement additional improvements and upgrades to operational systems. Many of these expenditures have been, and may continue to be, incurred in advance of the realization of any direct benefits to our business. We cannot guarantee that we will be successful at improving our operational systems, or that our efforts will result in the anticipated benefits to us. If our operational systems upgrades and improvements are not successful, our financial condition and operating results could be adversely affected and our business may become less competitive.

In addition, our operational systems upgrades have the potential to be disruptive to our existing business operations as our managers and employees attempt to learn new software programs and control systems, and adapt to new operating requirements, while continuing to manage and operate our business. If we are unable to successfully manage any disruption to our business caused by our operational systems upgrades, we could incur unanticipated expenses, loss of customers and harm to our reputation, any of which would harm our business.
If we are unsuccessful at managing production decisions, which are required to be made months in advance of the purchase of our products, we may inaccurately forecast our inventory requirements, which may adversely affect the image of our brands, and result in sales below our expectations.

Like other companies in the footwear, apparel and accessories industry, we have an extended design and manufacturing process, which involves the initial design of our products, the purchase of raw materials, the accumulation of inventories, the subsequent sale of the inventories, and the collection of the resulting accounts receivable. This production cycle requires us to incur significant expenses relating to the manufacturing and marketing of our products, including product development costs for new products, in advance of the realization of any revenue from the sale of our products, and results in significant liquidity requirements and working capital fluctuations throughout our fiscal year. Because the production cycle typically involves long lead times, which requires us to make manufacturing decisions several months in advance of a purchasing decision by the consumer, it may be challenging for us to estimate and manage our inventory requirements.

At the time manufacturing decisions are made, it is difficult for our management to predict and to timely adjust expenses in reaction to the following factors, which may result in order cancellations and weak consumer demand:

- unfavorable weather patterns and their potential impacts on consumer spending patterns generally, and the demand for our products in particular;
- changes in consumer preferences and fashion trends;
- market acceptance of new products;
- future sales and trends with our wholesale customers;
- changing general economic conditions; and
- the competitive environment, including pricing pressure resulting from reduced pricing of competitive products, which may cause consumers to shift their purchasing decisions away from our products.

The evolution of our product offerings has made these activities more challenging. If we overestimate demand for any products or styles, we may be forced to incur significant markdowns or sell excess inventories at reduced prices, which would result in lower revenues and reduced gross margins. On the other hand, if we underestimate demand for certain products or styles, or if our independent manufacturing facilities are unable to supply products in sufficient quantities, we may experience inventory shortages that may prevent us from fulfilling customer orders or result in us delaying shipments to customers. If that occurred, we could lose sales, our relationships with customers could be harmed, and our brand loyalty could be diminished.

We use sheepskin to manufacture a significant portion of our products, and if we are unable to obtain a sufficient quantity of sheepskin that meets our quality expectations, it could have a material adverse impact on our business.

For the manufacturing of our products, we purchase certain raw materials that are affected by commodity prices, the most significant of which is sheepskin. The supply of sheepskin, which is used to manufacture a significant portion of our UGG brand products, is in high demand and there are a limited number of suppliers that are able to meet our expectations for the quantity and quality of sheepskin that we require. In addition, our unique product design and animal welfare standards require sheepskin that may only be found in limited geographic locations. We presently rely on only two tanneries to provide the majority of our sheepskin. If the sheepskin provided by these tanneries and the resulting products we deliver to consumers, do not conform to our quality specifications or fail to meet consumer expectations, we could experience a higher rate of customer returns, which would reduce our net sales and harm our reputation. Similarly, if the tanneries are not able to deliver sheepskin in the quantities required this would negatively impact our manufacturing process and lead to inventory shortages, which would result in a loss of sales and strain our relationships with our customers.

In addition, any factors that negatively impact the business of these tanneries, such as loss of customers, financial instability or bankruptcy, could prevent them from delivering sheepskin to us in the quantities expected or at all. Our sheepskin suppliers currently warehouse their inventory at a limited number of facilities in China. The loss, destruction, or disruption of work at any of these facilities would likely result in shortages in our supply of sheepskin.

Historically, in certain years, there have been significant fluctuations in the price of sheepskin as the demand for this commodity from our customers and our competitors has changed, but recently we have seen more stable prices. We believe the significant factors affecting the price of sheepskin include weather patterns, harvesting decisions, incidence of disease, the price of other commodities such as wool, the demand for our products and the products of our competitors, and global economic conditions. Most of these factors are not considered predictable or within our control. Any factors that increase the demand for, or decrease the supply of, sheepskin could cause significant increases in the price of sheepskin, which would increase our manufacturing costs and reduce our gross margins.

Beginning in 2013, in an effort to partially reduce our dependency on sheepskin, we began using a proprietary raw material, UGGpure, which is a wool woven into a durable backing, in some of our UGG brand products. In addition, we use purchasing contracts and other pricing arrangements to attempt to reduce the impact of fluctuations in sheepskin prices. However, in the event of a prolonged increase in sheepskin prices such as what we experienced in the past, which at times has been significant, these strategies may not be sufficient to fully offset the impact on our financial results from the increased prices. In that event, it is unlikely we would be able to adjust our product prices sufficiently to eliminate the impact on our gross margins and our financial results may suffer.

Our financial success is influenced by the success of our customers, and the loss of a key customer could have a material adverse effect on our financial condition and results of operations.

Much of our financial success is directly related to the ability of our retailer and distributor partners to successfully market and sell our brands through to consumers. If a retailer or a distributor fails to meet annual sales goals or to make timely payments, it may be difficult to locate an acceptable substitute retailer or distributor, or convert to a wholesale direct model. If we determine that it is necessary to make a change, we may experience increased costs, loss of customers, increased credit risk, and increased inventory risk. In addition, there is no guarantee that any replacement retailer or distributor will generate results that are more favorable than the terminated party.

We currently do not have long-term contracts with any of our retailers. We do have contracts with our distributors with terms ranging up to five years, however, while these contracts may have annual purchase minimums which must be met in order to retain the distribution rights, the distributors are not otherwise obligated to purchase our products. Sales to our retailers and distributors are generally on an order-by-order basis and are subject to rights of cancellation and rescheduling by our wholesale customers. We use the timing of delivery dates in our wholesale customer orders to forecast our sales and earnings for future periods. If any of our major customers, experience a significant downturn in business or fail to remain committed to our products or brands, these customers could postpone, reduce, or discontinue purchases from us. These risks have been exacerbated recently as our retail customers face a retail industry that continues to undergo significant structural changes fueled by technology that is altering consumer behavior. We may lose key retail and wholesale customers if they fail to manage the impact of the rapidly changing retail environment. As a result, we could experience a significant decline in sales, write-downs of excess inventory, or increased discounts to our customers, any of which could have a material adverse effect on our financial condition or results of operations.

Our five largest customers accounted for approximately 23.6% of worldwide net sales for the year ended March 31, 2018 and 20.3% of worldwide net sales for the year ended March 31, 2017. Any loss of a key customer, the financial collapse or bankruptcy of a key customer, or a significant reduction in purchases from a key customer could have a material adverse effect on our financial condition and results of operations.

Failure to adequately protect our intellectual property rights, to prevent counterfeiting of our products, or to defend claims against us related to our intellectual property rights, could reduce sales and adversely affect the value of our brands.

Our business could be significantly harmed if we are not able to protect our intellectual property rights. We believe our competitive position is largely attributable to the value of our trademarks, patents, trade dress, trade names, trade secrets, copyrights and other intellectual property rights. Although we are aggressive in legal and other actions in pursuing those who infringe on our intellectual property rights, we cannot guarantee that the actions we have taken will be adequate to protect our brands in the future, especially because some countries' laws do not protect intellectual property rights to the same extent as US laws. If we fail to adequately protect our intellectual property rights, it would allow our competitors to sell products that are similar to and directly competitive with our products, which could reduce sales of our products. In addition, any intellectual property lawsuits in which we are involved could cost a significant amount of time and money and distract management’s attention from operating our business, which may negatively impact our performance.

The success of our brands has also made us the target of counterfeiting and product imitation strategies. We continue to be vulnerable to such infringements despite our dedication of significant resources to the registration and protection of our intellectual property and to anti-counterfeiting efforts worldwide. If we fail to prevent counterfeiting or imitation of our products, we could lose opportunities to sell our products to consumers who may instead purchase a counterfeit or imitation product. In addition, if our products are associated with inferior products due to infringement by others of our intellectual property, it could adversely affect the value of our brands.

In addition to fighting intellectual property infringement, we may need to defend claims against us related to our intellectual property rights. We have faced claims that the word "ugg" is a generic term. Such a claim was successful in Australia, but similar claims have been rejected by courts in the US, China, Turkey and the Netherlands. We have also faced claims that “UGG Australia” is geographically deceptive. For example, in response to an infringement lawsuit that we filed in March 2016 against Australian Leather Pty Ltd. (Australian Leather), Australian Leather raised a number of affirmative defenses and counterclaims, including seeking declaratory judgment that the UGG brand trademark is invalid and unenforceable in the US, cancellation of certain of our US UGG brand trademark registrations, false designation of origin and declaratory judgment that certain of our US design patents are invalid and unenforceable. Any court decision or settlement of such matters that prevents trademark protection of our brands, that allows a third-party to continue to sell products similar to our products, or that allows a manufacturer or distributer to continue to sell counterfeit products, could lead to intensified competition and a material reduction in our sales.

We may not succeed in implementing our growth strategies, in which case we may not be able to take advantage of certain market opportunities and may become less competitive.

As part of our overall growth strategy, we are continually seeking out opportunities to enhance the positioning of our brands, diversify our product offerings, extend our brands into complementary product categories and markets, expand geographically, optimize our retail presence both in stores and online, and improve our financial performance and operational efficiency. For example, we are considering expanding our partner retail program in certain markets based on our analysis of the market opportunity and business efficiencies. In addition, as part of our international growth strategy, we may continue to transition from a third-party distribution model to a direct distribution model for certain brands. However, we may shift from a direct distribution model to a third-party distribution model for certain brands. Further, we are exploring relationships with third parties for the expansion of the UGG brand into different product categories, including licensee and sourcing agent arrangements. We anticipate that substantial further expansion will be required to realize our growth potential and take advantage of new market opportunities. Failure to effectively implement our growth strategy could negatively impact our revenues and rate of growth, and result in our business becoming less competitive. In addition, taking steps to implement our growth initiatives could have a number of negative effects, including increasing our working capital needs, causing us to incur costs without any corresponding benefits, and diverting management time and resources away from our existing business.

We depend on qualified personnel and, if we are unable to retain or hire executive officers, key employees and skilled personnel, we may not be able to achieve our strategic objectives and our operating results may suffer.

To execute our growth plan, we must continue to attract and retain highly qualified personnel, including executive officers and key employees. Further, in order to continue to develop new products and successfully operate and grow our key business processes, it is important for us to continue hiring highly skilled footwear, apparel and accessories designers and information technology specialists.

Competition for executive officers, key employees and skilled personnel is intense within our industry and there continues to be upward pressure on the compensation paid to these professionals. Many of the companies with which we compete for experienced personnel have greater name recognition and financial resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that we or these employees have breached their legal obligations, resulting in a diversion of our time and resources. In addition, prospective and existing employees often consider the value of the stock-based compensation they receive in connection with their employment when deciding whether to take a job. If the perceived value of our stock-based compensation declines, or if the price of our stock experiences significant volatility, it may adversely affect our ability to recruit, retain and motivate qualified personnel. If we fail to attract, train and transfer institutional knowledge and expertise to our new personnel, or to retain and develop our current personnel, our future growth prospects could be adversely affected and our business could be harmed. Further, our headquarters are located in Goleta, California, which is not generally recognized as a prominent commercial center, and it is difficult to attract qualified professionals due to our geographic location. As a result, we may have difficulty hiring and retaining qualified personnel with the skills to expand our business. If we are unable to attract and retain the personnel necessary to execute our growth plan, we may be unable to achieve our strategic objectives, our operating results may suffer and we may be unable to compete in the market.

The continued service of our executive officers and key employees is particularly important, and the hiring or departure of such personnel from time to time may disrupt our business or result in the depletion of significant institutional knowledge. Our executive officers and other key employees are generally employed on an at-will basis, which means that such personnel could terminate their employment with us at any time. The loss of one or more of our executive officers or other key employees or significant turnover in our senior management, and the often extensive process of identifying and hiring other personnel who will work effectively with our employees to fill those key positions, could have a material adverse effect on our business.

Additionally, as part of our efforts to improve overall efficiency and competitiveness of our business, we have added new leadership both within our brands and to our Omni-Channel platform, including the President of Fashion Lifestyle and the President of Performance Lifestyle, as well as streamlining and restructuring our existing personnel and brand management. If we fail to effectively implement these management and personnel changes, we may be unable to achieve our strategic objectives and operating efficiencies.

Our corporate culture has contributed to our success and, if we cannot maintain this culture as we grow, we could lose the passion, creativity, teamwork, focus and innovation fostered by our culture.

We believe that our culture has been and will continue to be a key contributor to our success. If we do not continue to develop our corporate culture or maintain our culture and core values over time, we may be unable to foster the passion, creativity, teamwork, focus and innovation that we believe have contributed to the growth and success of our business. Any failure to preserve our culture could negatively affect our ability to recruit and retain personnel and to effectively focus on and pursue our strategic objectives. As we continue to pursue our goals and implement new strategies, we may find it difficult to maintain our corporate culture.

We rely upon a number of warehouse and distribution facilities to operate our business, and any damage to one of these facilities, or any disruptions caused by incorporating new facilities into our operations, could have a material adverse impact on our business.

We rely upon a broad network of warehouse and distribution facilities in order to store, sort, package and distribute our products both domestically and internationally. In the US, we distribute products primarily through self-managed distribution centers in Camarillo and Moreno Valley, California. We currently expect to move our Camarillo distribution operations to our Moreno Valley location by the end of calendar year 2019. We also distribute our products through a 3PL located in Pennsylvania. These distribution centers feature a complex warehouse management system that enables us to efficiently pack products for direct shipment to customers. However, we could face a significant disruption in our domestic distribution center operations if our warehouse management system does not perform as anticipated or ceases to function for an extended period of time, which could occur as a result of damage to the facility, failure of certain equipment, power outages or software problems. If our domestic distribution center operations are impeded for any reason, it could result in shipment delays or the inability to deliver product at all, which would result in lost sales, strain our relationships with customers, and cause harm to our reputation, any of which could have a material adverse impact on our business.

Internationally, we distribute our products through a number of distribution centers managed by 3PLs. We depend on these 3PLs to manage the operation of their distribution centers as necessary to meet our business needs. If the 3PLs fail to manage these responsibilities, our international distribution operations could face significant disruptions. For example, in the second quarter of fiscal year 2017, we experienced a delay in shipments from our European 3PL that impacted sales. The loss of, or disruption to the operations of, any one or more of these facilities, whether due to natural disasters, the outbreak of hostilities, work stoppages, or other adverse events, could materially adversely impact our sales, business performance and operating results. Although we believe we possess adequate insurance for the disruption to the operations of these facilities, such insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all.

We rely on independent manufacturers for most of our production needs, and the failure of these manufacturers to manage these responsibilities would prevent us filling customer orders, which would result in loss of sales and harm our relationships with customers.

We rely on independent manufacturers and their respective material suppliers for most of our production needs, although we do not have direct control over the manufacturers or their suppliers. We depend on these independent manufacturers for a number of functions that are critical to our operations, including financing the production of goods ordered, maintaining manufacturing capacity, complying with our restricted substances policy and storing finished goods in a safe location pending shipment. If the independent manufacturers fail to manage these responsibilities, we may be unable to obtain timely delivery of products in sufficient quantities that meet our quality standards. In that event, we may not be able to fill customer orders, which would result in lost sales and harm to our relationships with customers.

We do not currently have long-term contracts with these independent manufacturers, and so are not assured of a long-term, uninterrupted supply of acceptable quality and competitively-priced products from them. While we do have long-standing relationships with most of these independent manufacturers, any of them may unilaterally terminate their relationship with us at any time, seek to increase the prices they charge us, or extract other concessions from us. In the event of a termination of an existing relationship with a manufacturer, we may not be able to substitute alternative manufacturers that are capable of providing products or services of a comparable quality, at an acceptable price, or on a timely basis. If we must find alternative manufacturers, we would likely experience increased costs, as well as substantial disruption to our business, which could result in a loss of sales and earnings.

Interruptions in the supply of our products can also result from adverse events that impair the operations of our manufacturers. We keep proprietary materials that are required for the production of our products, such as shoe molds and raw materials, under the custody of our independent manufacturers. If these independent manufacturers were to experience loss or damage to these proprietary materials, whether as a result of natural disasters, outbreak of hostilities or other adverse events, we cannot be assured that the manufacturers would have adequate insurance to cover such loss or damage, and, in any event, the replacement of such materials would likely result in significant delays in the production of our products, which could result in a loss of sales and earnings.

Most of our independent manufacturers are located outside of the US, where we are subject to the risks associated with international commerce.

Most of our independent manufacturers are in Asia. Foreign manufacturing is subject to numerous risks and uncertainties, including the following:

- tariffs, import and export controls, and other non-tariff barriers such as quotas and local content rules on raw materials and finished products;
- increasing transportation costs, delays and interruptions, and a limited supply of international shipping capacity;
- delays during shipping, at the port of entry or at the port of departure;
- increasing labor costs and labor disruptions;
- poor infrastructure and shortages of equipment, which can disrupt transportation and utilities;
- restrictions on the transfer of funds from foreign jurisdictions;
- changing economic and market conditions;
- changes in governmental policies and regulations including intellectual property, labor, safety, and environmental regulations;
- refusal to adopt or comply with our Supplier Code of Conduct, Conflict Minerals Policy and Restricted Substances Policy;
- customary business traditions in China and Vietnam such as local holidays, which are traditionally accompanied by high levels of turnover in the factories;

- decreased scrutiny by custom officials for counterfeit products;
- practices involving corruption, extortion, bribery, pay-offs, theft and other fraudulent activity;
- social unrest and political instability, which can interrupt commerce, including acts of war and other external factors, over which we have no control;
- heightened terrorism security concerns, which could subject imported or exported products to more frequent or more lengthy inspections;
- use of unauthorized or prohibited materials or reclassification of materials;
- disease epidemics and health-related concerns that could result in a reduced workforce or scarcity of raw materials;

- disruptions at manufacturing or distribution facilities caused by natural or other disasters; and
- adverse changes in consumer perception of goods, trade, or political relations with China or Vietnam.

These risks and uncertainties, or others of which we are currently unaware, could interfere with the manufacture or shipment of our products by our independent manufacturers. This could make it more difficult to obtain adequate supplies of quality products when we need them, which could negatively impact our sales and earnings.

While we require that our independent manufacturers adhere to environmental, labor, ethical, health, safety, and other standard business practices and applicable local laws, and while we periodically visit and audit their operations, we do not control their business practices. If we discovered non-compliant manufacturers or suppliers that cannot or will not become compliant, we would cease dealing with them, which could increase our costs and cause us to suffer an interruption in our product supply chain. In addition, the manufacturers' violations of such standards and laws could result in negative publicity, which could damage our reputation and the value of our brands.

We conduct business outside the US, which exposes us to foreign currency exchange rate risk, and could have a negative impact on our financial results.

We operate on a global basis, with approximately 38.3% of our net sales for the year ended March 31, 2018 from operations outside the US. As we continue to increase our international operations, our sales and expenditures in foreign currencies become more material and subject to foreign currency exchange rate fluctuations. A significant portion of our international operating expenses are paid in local currencies. Also, our foreign distributors sell in local currency, which impacts the price to foreign consumers. Many of our subsidiaries operate with their local currency as their functional currency. Future foreign currency exchange rate fluctuations and global credit markets may cause changes in the US dollar value of our purchases or sales and materially affect our sales, profit margins, or results of operations, when converted to US dollars. Changes in the value of the US dollar relative to other currencies could result in material foreign currency exchange rate fluctuations or the US dollar value of transactions and, as a result, our net earnings could be materially adversely affected.

We currently utilize foreign currency exchange rate contracts or other derivative instruments for the amounts we expect to purchase and sell in foreign currencies to mitigate exposure to foreign currency exchange rate fluctuations. As we continue to expand international operations and increase purchases and sales in foreign currencies, we will evaluate and may utilize additional derivative instruments, as needed, to hedge our foreign currency exchange rate risk. Our hedging strategies depend on our forecasts of sales, expenses, and cash flows, which are inherently subject to inaccuracies. Therefore, our hedging strategies may be ineffective. In addition, the failure of financial institutions that underwrite our foreign currency exchange rate contracts may negate our efforts to hedge our foreign currency exchange rate risk and result in material foreign currency exchange rate or hedge contract losses. Foreign currency exchange rate hedges, transactions, re-measurements or translations could materially impact our consolidated financial statements.

Labor disruptions could negatively impact our results of operations and financial position.

Our business depends on our ability to source and distribute products in a timely manner. Labor disputes that affect the operations of our independent manufacturers, tanneries, transportation carriers, retail stores or distribution centers create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes or similar disruptions. For example, in recent years, labor disputes at US shipping ports have impacted the delivery of our products. Any such disruptions may have a material adverse effect on our business by potentially resulting in cancelled orders by customers, unanticipated inventory accumulation, and increased transportation and labor costs, each of which may negatively impact our results of operations and financial position.

Our sales in international markets are subject to a variety of legal, regulatory, political, cultural and economic risks that may adversely impact our operating results in certain regions.

Our ability to capitalize on growth in new international markets and to maintain the current level of operation in our existing international markets is subject to risks associated with international operations that could adversely affect our sales and operating results. These risks include:

- foreign currency exchange rates fluctuations, which impact the prices at which products are sold to international consumers;
- limitations on our ability to move currency out of international markets;

- burdens of complying with a variety of foreign laws and regulations, which may change unexpectedly, and the interpretation and application of which are uncertain;
- legal costs and penalties related to defending allegations of non-compliance with foreign government policies, laws and regulations;
- inability to import products into a foreign country;
- changes in US and foreign tax laws;
- complications due to lack of familiarity with local customs;
- difficulties associated with promoting and marketing products in unfamiliar cultures;
- political corruption or instability;
- anti-American sentiment in international markets in which we operate;
- economic uncertainty associated with the pending exit of the United Kingdom from the European Union or any other similar referendums that may be held;
- changes in diplomatic and trade relationships between the US and other countries; and
- general economic fluctuations in specific countries or markets.

International trade and import regulations may impose unexpected duty costs or other non-tariff barriers to markets while the increasing number of free trade agreements has the potential to stimulate increased competition; security procedures may cause significant delays.

Products manufactured overseas and imported into the US and other countries are subject to import duties. While we have implemented internal measures to comply with applicable customs regulations and to properly calculate the import duties applicable to imported products, customs authorities may disagree with our claimed tariff treatment for certain products, resulting in unexpected costs that may not have been factored into the sales price of such products and our forecasted gross margins.

In addition, we cannot predict whether future domestic and foreign laws, regulations or trade remedy actions or international agreements may impose additional duties or other restrictions on the importation of products from one or more of our sourcing venues. Changes in tax policy or trade regulations, such as the recently enacted US H.R. 1, also known as the Tax Cuts and Jobs Act (Tax Reform Act), could increase the cost of our products, require us to withdraw from certain restricted markets, or change our business methods and could make it difficult to obtain products of our customary quality at a competitive price.

Further, the current political landscape has introduced significant uncertainty with respect to future trade regulations and existing international trade agreements, as shown by the recent US-initiated renegotiation of the North America Free Trade Agreement, and Brexit in Europe. This uncertainty includes the possibility of imposing tariffs or penalties on products manufactured outside the US, including the March 22, 2018 announcement of the US government's institution of a 25% tariff on a range of products from China and the potential for increased trade barriers between the UK and the European Union. We cannot predict whether, and to what extent, there may be changes to international trade agreements or whether quotas, duties, tariffs, exchange controls or other restrictions on our products will be changed or imposed. If we are unable to source our products from the countries where we wish to purchase them, either because of such regulatory changes or for any other reason, or if the cost of doing so increases, it could have a material adverse effect on our business, financial condition and results of operations.

The continued negotiation of bilateral and multilateral free trade agreements with countries other than our principal sourcing venues may stimulate competition for manufacturers. Manufacturers in these locations may seek to export footwear, apparel and accessories to our target markets at preferred rates of duty which may negatively impact our sales and operations.

Additionally, the increased threat of terrorist activity, and law enforcement responses to this threat, have required greater levels of inspection of imported goods and have caused delays in bringing imported goods to market. Any tightening of security procedures, for example, in the aftermath of a terrorist incident, could worsen these delays and increase our costs.

We face risks associated with pursuing strategic acquisitions, and our failure to successfully integrate any acquired business or products could have a material adverse effect on our results of operations and financial position.

As part of our overall strategy, we may periodically consider strategic acquisitions in order to extend our brands into complementary product categories and markets. Our ability to do so depends on our ability to identify and successfully pursue suitable acquisition candidates. Acquisitions involve numerous risks, challenges and uncertainties, including the potential to:

- expose us to risks inherent in entering a new market or geographic region;
- lose significant customers or key personnel of the acquired business;
- encounter difficulties managing geographically-remote operations;
- divert management's time and attention away from other aspects of our business operations;
- issue equity securities to finance the acquisition, which would be dilutive to our existing stockholders;
- incur indebtedness to finance the acquisition, which would result in debt service costs and potentially include covenants restricting our operations; and
- incur costs relating to a potential acquisition that we fail to consummate, which we may not be able to recover.

Additionally, we may not be able to successfully integrate the operations of any acquired businesses into our operations, or to achieve the expected benefits of any acquisitions. Following an acquisition, we may also face cannibalization of existing product sales by our newly-acquired products, unless we adequately integrate new brands and products with our existing products, aggressively target different consumers for our newly-acquired products, and increase our overall market share. The failure to successfully integrate any acquired business or products in the future could have a material adverse effect on our results of operations and financial position.

Key business processes and supporting information systems could be interrupted and such interruption could adversely affect our business.

Our future success and growth depend on the continued operation of our key business processes, including information systems, global communications, the internet, and key personnel. Hackers and computer viruses have disrupted operations at many major companies. We may be vulnerable to similar acts of sabotage. Key processes could also be interrupted by a failure due to weather, natural disaster, power loss, telecommunications failure, failure of our computer systems, sabotage, terrorism, or similar event such that:

- critical business systems become inoperable or require significant costs to restore;
- key personnel are unable to perform their duties, communicate, or access information systems;
- significant quantities of merchandise are damaged or destroyed;
- we are required to make unanticipated investment in state-of-the-art technologies and security measures;
- key wholesale and distributor customers cannot place or receive orders;
- E-Commerce customer orders may not be received or fulfilled;
- confidential information about our customers may be misappropriated or lost damaging our reputation and customer relationships;
- we are exposed to unanticipated liabilities; or
- carriers cannot ship or unload shipments.

Interruptions to key business processes could have a material adverse effect on our business and operations and result in lost sales and reduced earnings.

Furthermore, we rely on certain information technology management and ERP systems to prepare sales forecasts, track our financial and operating results, and otherwise operate our business. As our business grows and we expand into additional distribution channels and geographic regions, these systems may require expansion or modification. We may experience difficulties expanding these information technology and resource planning systems or transitioning to new or upgraded systems, which may result in loss of data or unreliable data, decreases in productivity as our personnel become familiar with and adapt to the new systems, and increased costs for the implementation of the new or upgraded systems. If we are unable to modify our information technology or resource planning systems to respond to changes in our business needs, or if we experience a failure or interruption in these systems, our ability to accurately forecast sales, report our financial and operating results, or otherwise operate our business could be adversely affected.

The loss, theft or misuse of sensitive customer or our related information, could damage our relationships with customers, harm our reputation, expose us to litigation and adversely affect our business.

Our business involves the storage and transmission of sensitive information, including the personal information of our customers, credit card information, employee information, data relating to customer preferences, and our proprietary financial and strategic data. The protection of our customer, employee and our data is vitally important to us as the loss, theft or misuse of such information could lead to significant reputation or competitive harm, litigation and potential liability. As a result, we believe that our future success and growth depends, in part, on the ability of our key business processes, including our information and global communication systems, to prevent the theft, loss or misuse of this sensitive information. However, as with many businesses, we are subject to numerous security and cybersecurity risks which may prevent us from maintaining the privacy of sensitive information and require us to expend significant resources attempting to secure such information and to comply with data privacy laws in the US and abroad.

As has been well documented in the media, hackers and computer viruses have disrupted operations at many major companies, and we may be vulnerable to similar security breaches. While we have expended, and will continue to expend, resources to protect our customers and ourselves against these breaches and to ensure an effective response to a security or cybersecurity breach, we cannot be certain that we will be able to adequately defend against any such breach. Techniques used to obtain unauthorized access to attack systems are constantly evolving and, in some cases, becoming more sophisticated and harder to detect. Despite our efforts, we may be unable to anticipate these techniques or implement adequate preventive measures in response, and any breaches that we do not detect may remain undetected for some period. In addition, measures that we do take to prevent risks of fraud and security breaches have the potential to harm relationships with our customers or suppliers, or decrease activity on our websites by making them more difficult to use or restricting the ability to meet our customers' expectations in terms of their online shopping experience.

Any failure to maintain the security of our customers’ sensitive information, or data belonging to our suppliers, could put us at a competitive disadvantage, result in deterioration of our customers’ confidence in our brands, and subject us to potential litigation, liability, fines and penalties. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses and would not remedy damage to our reputation. In addition, employees may intentionally or inadvertently cause data or security breaches that result in unauthorized release of personal or confidential information. If we fail to adequately protect such information or respond to a breach, we could be held liable to our customers, suppliers, employees or other parties. Furthermore, we could be subject to regulatory or other actions pursuant to domestic and international privacy laws, including newer regulations such as the Action on the Protection of Personal Information in Japan and the General Data Protection Regulation (known as GDPR) in the European Union. This could result in costly investigations and litigation, civil or criminal penalties, operational changes and negative publicity that could adversely affect our reputation and our results of operations and financial condition.

We are also subject to payment card association rules and obligations under our contracts with payment card processors. Under these rules and obligations, if information is compromised, we could be liable to payment card issuers for associated expenses and penalties. In addition, if we fail to follow payment card industry security standards, even if customer information is never compromised, we could incur significant fines or experience a significant increase in payment card transaction costs.

Our revolving credit facility agreements expose us to certain risks.

From time to time, we have financed our liquidity needs in part from borrowings made under our revolving credit facilities. Our revolving credit facility agreements also contain a number of customary financial covenants and restrictions, which may restrict our ability to engage in transactions that would otherwise be in our best interests. Failure to comply with any of the covenants could result in a default. A default under any of our revolving credit facility agreements could cause the lenders party thereto to accelerate the timing of payments and exercise their liens on our assets, which would have a material adverse effect on our business, operations, financial condition and liquidity. In addition, we do not currently anticipate hedging against borrowings under the revolving credit facilities because the facilities bear interest at variable interest rates. Any increases in interest rates would increase our cost of borrowing, resulting in a decline in our net income and cash flow.

The tax laws applicable to our business are very complex and changes in tax laws could increase our worldwide tax rate and materially affect our financial position and results of operations.

We are subject to changes in tax laws, regulations and treaties in and between the jurisdictions in which we operate. Our tax expense is based upon our interpretation of the tax laws in effect in various countries at the time that the expense was incurred. A change in these tax laws, treaties or regulations, or in their interpretation, could result in a materially higher tax expense or a higher effective tax rate on our worldwide earnings. In addition, the enactment of the Tax Reform Act resulted in changes to the existing US tax laws that have and will continue to affect us. Additional proposed regulations, clarifications, interpretations and other changes to the Tax Reform Act may ultimately be enacted in a future period, which could increase our income tax liability or adversely affect our net income and long-term effective tax rates. Any changes in tax laws, treaties or regulations could increase our income tax liability or adversely affect our net income and long term effective tax rates.

In future years, certain additional provisions of the Tax Reform Act, such as a tax on global intangible low-taxed income, will apply to us and, as a result, could increase our effective tax rate. Taxes due over a period of time as a result of the new tax law, including the one-time, mandatory deemed repatriation tax on certain foreign earnings, could be accelerated upon various triggering events, including failure to pay such taxes when due. The new law makes broad and complex changes to the US tax code and we expect to see future regulatory, administrative or legislative guidance. We are analyzing the Tax Reform Act to determine the full impact of the new tax law, and to the extent any future guidance differs from our preliminary interpretation of the law, it could have a material effect on our financial position and results of operations.

In addition, many countries in the European Union and around the globe have adopted or proposed changes to current tax laws. Further, organizations such as the Organization for Economic Cooperation and Development have published action plans that, if adopted by countries where we do business, could increase our tax obligations in these countries. Due to the large scale of our US and international business activities, many of these enacted and proposed changes could increase our worldwide effective tax rate and harm our financial position and results of operations.

We may be subject to additional tax liabilities as a result of audits by various taxing authorities.

We conduct our operations through subsidiaries in several countries and foreign territories, including, but not limited to, the US, the UK, Japan, China, Hong Kong, Macau, the Netherlands, Bermuda, France, Germany, Canada, Austria, Belgium and Switzerland. As a result, we are subject to tax laws and regulations in each of those jurisdictions, and to tax treaties between these countries. These tax laws are highly complex, and significant judgment and specialized expertise is required in evaluating and estimating our worldwide provision for income taxes.

We are subject to tax audits in each of the various jurisdictions where we conduct business, and any of these jurisdictions may assess additional taxes against us as a result of these audits. Although we believe our tax estimates are reasonable, and we undertake to prepare our tax filings in accordance with all applicable tax laws, the final determination with respect to any tax audits, and any related litigation, could be materially different from our estimates or from our historical tax provisions and accruals. The results of a tax audit or other tax proceeding could have a material adverse effect on our operating results or cash flows in the periods for which that determination is made, and may require a restatement of prior financial reports. In addition, future period earnings may be adversely impacted by litigation costs, settlement payments, or interest or penalty assessments.

We may incur disruption, expense, and potential liability associated with existing and future litigation.

We are involved in various claims, litigation and other legal and regulatory proceedings and governmental investigations that arise from time to time in the ordinary course of our business. Due to the inherent uncertainties of litigation and other such proceedings and investigations, we cannot predict with accuracy the ultimate outcome of any such matters. An unfavorable outcome could have a material adverse impact on our business, financial position, and results of operations. The amount of insurance coverage we maintain to address such matters may be inadequate to cover these or other claims. In addition, any significant litigation, investigation, or proceeding, regardless of its merits, could divert financial and management resources that would otherwise be used to benefit our operations or could negatively impact our reputation in the marketplace.

Regulations related to "conflict minerals" may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.

The SEC has adopted a rule requiring disclosures by public companies of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rule requires companies to perform a reasonable country of origin inquiry, and to annually report to the SEC whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. The rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. We file a Form SD, Specialized Disclosure Report, on or about May 31st each year.

Our common stock price has been volatile, which could result in substantial losses for stockholders.

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol “DECK”. The trading price of our common stock has been and may continue to be volatile. The closing prices of our common stock, as reported by the NYSE, have ranged from $55.78 to $98.29 for the year ended March 31, 2018. The trading price of our common stock could be affected by a number of factors, including, but not limited to the following:

- changes in expectations of our future performance, whether realized or perceived;
- changes in estimates by securities analysts or failure to meet such estimates;
- changes in our stockholder base or public actions taken by investors;
- announcements related to our review of a broad range of strategic alternatives;
- published research and opinions by securities analysts and other market forecasters;
- quarterly fluctuations in our sales, margins, expenses, and financial results;
- the financial results and liquidity of our customers;
- claims brought against us by a regulatory agency or our stockholders;
- announcements to repurchase our common stock;
- the declaration of stock or cash dividends;
- general market and economic conditions;
- consumer confidence;
- broad market fluctuations in volume and price; and
- a variety of risk factors, including the ones described elsewhere in this Annual Report on Form 10-K and in our other filings with the SEC.

In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of individual companies. Accordingly, the price of our common stock is volatile and any investment in our stock is subject to risk of loss. These broad market and industry factors and other general macroeconomic conditions unrelated to our financial performance may also affect our common stock price.

Changes in economic conditions may adversely affect our financial condition and results of operations.

Volatile economic conditions and general changes in the market have affected, and will likely continue to affect, consumer spending generally and the buying habits and preferences of consumers. A significant portion of the products we sell, especially those sold under the UGG brand, are considered to be luxury retail products. The purchase of these products by consumers is largely discretionary, and is therefore highly dependent upon the level of consumer spending, particularly among affluent consumers. Sales of these products may be adversely affected by factors such as uncertain or worsening economic conditions, increases in consumer debt levels, or a decline in consumer confidence. During an actual or perceived economic downturn, fewer consumers may shop for our products, and those who do shop may limit the amount of their purchases or substitute less costly products for our products. As a result, we could be required to reduce the price we can charge for our products or increase our marketing and promotional expenses to generate additional demand for our products. In either case, these changes could reduce our sales and gross margins, which could have a material adverse effect on our financial condition and results of operations.

We sell a large portion of our products through higher-end specialty and department store retailers. The businesses of these retailer customers may be impacted by factors such as changes in economic conditions, reduced customer demand for luxury products, and decreases in available credit. If these or other factors result in financial difficulties or insolvency for our retail customers, such pressures would have an adverse impact on our estimated allowances and reserves, and potentially result in us losing key customers.

Furthermore, economic factors such as increased transportation costs, inflation, higher costs of labor, and higher insurance and healthcare costs may increase our cost of sales and our operating expenses.

Anti-takeover provisions contained in our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws contain provisions that could have the effect of rendering more difficult hostile takeovers, change-in-control transactions or changes in our Board of Directors or management. Among other things, these provisions:

- authorize the issuance of preferred stock with powers, preferences and rights that may be senior to our common stock, which can be created and issued by our Board of Directors without prior stockholder approval;
- provide that the number of directors will be fixed by the affirmative vote of a majority of the whole Board of Directors;
- provide that board vacancies can only be filled by directors;
- prohibit stockholders from acting by written consent without holding a meeting of stockholders;
- require the vote of holders of not less than 66 2/3% of the voting stock then outstanding to approve amendments to our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws; and
- require advance written notice of stockholder proposals and director nominations.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which may delay, deter or prevent a change-in-control transaction. Section 203 imposes certain restrictions on mergers, business combinations and other transactions between us and holders of 15% or more of our common stock.

Any provision of Delaware law, our Amended and Restated Certificate of Incorporation, or our Amended and Restated Bylaws, that has the effect of rendering more difficult, delaying, deterring or preventing a change-in-control transaction could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Our business could be negatively affected as a result of the actions of activist stockholders.

Responding to the actions of activist stockholders can be costly and time-consuming, disruptive to our operations, and result in the diversion of the attention of management and our employees. For example, we were recently involved in a proxy contest with a hedge fund, which required us to incur significant legal fees and proxy solicitation expenses, and required significant time and attention by management and our Board. Any perceived uncertainties as to the impact of the activities of activist stockholders, or of our future strategic direction, could also affect the market price and volatility of our common stock.

We do not expect to declare any dividends in the foreseeable future.

We have never declared or paid any cash dividends on our existing common stock. We do not anticipate declaring or paying any cash dividends to holders of our common stock in the foreseeable future and intend to retain all future earnings for the growth of our business. Consequently, investors may need to rely on sales of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors should not purchase our common stock with the expectation of receiving cash dividends.

Our reported financial results may be adversely affected by changes in US GAAP.

Generally accepted accounting principles in the US (US GAAP) are subject to interpretation by the Financial Accounting Standards Board, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant impact on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

Item 2. Properties

Our corporate headquarters are located in Goleta, California. The construction of our 14-acre corporate headquarters in Goleta, California was substantially completed in January 2014. In April 2016, we completed the acquisition of approximately four acres of land adjacent to our corporate headquarters to accommodate future expansion.

We have two US distribution centers. We began operating our warehouse and distribution center in Moreno Valley, California, in the fourth quarter of fiscal year 2015 and since June 2017 have begun to expand operations at this location. While we continue to operate our distribution center in Camarillo, California, we are currently working to move all of our Camarillo distribution operations to our Moreno Valley location by the end of calendar year 2019. Our international distribution centers are managed by 3PLs and are located in Canada, China, Hong Kong, Japan, the Netherlands, and the UK, as well as a domestic distribution center located in Pennsylvania.

We also have offices in China, Hong Kong and Vietnam to oversee the quality and manufacturing standards of our products, an office in Macau to coordinate logistics, offices in China, Hong Kong, and Japan to coordinate sales and marketing efforts, and offices in France, Germany, the Netherlands, Switzerland, and the UK to oversee European sales, operations and administration.

At March 31, 2018, we had 56 retail stores in the US ranging from approximately 1,000 to 7,000 square feet. Internationally, we had 109 retail stores in Austria, Belgium, Canada, China, France, Germany, Japan, the Netherlands, Switzerland and the UK. We have no manufacturing facilities, as all of our products are manufactured by independent third-party contractors.

Other than our corporate headquarters, we lease our facilities, retail stores and other office spaces from unrelated parties. With the exception of our DTC business facilities, our facilities are attributable to multiple reportable operating segments and are not allocated to our reportable operating segments. We believe our space is adequate for our current needs and that suitable additional or substitute space will be available to accommodate the foreseeable expansion of our business and operations.

The following table provides details regarding our significant physical properties at March 31, 2018:

Facility Location	Description	Lease or Own	Facility Size (Square Footage)
Moreno Valley, California	Warehouse and Distribution Center	Lease	794,000
Camarillo, California	Warehouse and Distribution Center	Lease	723,000
Goleta, California	Corporate Headquarters	Own	185,000

In June 2017, we exercised our option to extend the lease of our warehouse and distribution center located in Moreno Valley, California, through June 2028 and to lease approximately 736,000 of additional square feet beginning in fiscal year 2019.

Item 3. Legal Proceedings

As part of our global policing program to protect our intellectual property rights, from time to time, we file lawsuits in various jurisdictions asserting claims for alleged acts of trademark counterfeiting, trademark infringement, patent infringement, trade dress infringement and trademark dilution. We generally have multiple actions such as these pending at any given point in time. These actions may result in seizure of counterfeit merchandise, out of court settlements with defendants or other outcomes. In addition, from time to time, we are subject to claims in which opposing parties will raise, either as affirmative defenses or as counterclaims, the invalidity or unenforceability of certain of our intellectual property rights, including allegations that our UGG brand trademark registrations and design patents are invalid or unenforceable. Furthermore, we are aware of many instances throughout the world in which a third-party is using our UGG trademarks within its internet domain name, and we have discovered and are investigating several manufacturers and distributors of counterfeit UGG brand products.

On March 28, 2016, we filed a lawsuit alleging trademark infringement, patent infringement, unfair competition and violation of deceptive trade practices in the US District Court for the Northern District of Illinois Eastern Division against Australian Leather. In response, Australian Leather raised a number of affirmative defenses and counterclaims, including seeking declaratory judgment that the UGG brand trademark is invalid and unenforceable in the US, cancellation of certain of our US UGG brand trademark registrations, false designation of origin and declaratory judgment that certain of our US design patents are invalid and unenforceable. The counterclaims seek declaratory judgment, an injunction, cancellation of certain of our US trademark registrations, compensatory damages, attorneys' fees and other relief. We believe the counterclaims are without merit and intend to defend the counterclaims vigorously. Both parties have filed briefs on Motions for Summary Judgment on various claims which are currently pending. While we believe there is no legal basis for liability, a judgment invalidating the UGG brand trademark would have a material adverse effect on our business. Further, due to uncertainty surrounding the litigation process, we are unable to reasonably estimate a range of loss, if any, at this time.

Although we are subject to other routine legal proceedings from time to time in the ordinary course of business, including employment, intellectual property and product liability claims, we believe that the outcome of all pending legal proceedings in the aggregate will not have a material adverse effect on our business, operating results, financial condition or cash flows.

PART II

References in this Annual Report on Form 10-K to "Deckers," "we," "our," "us," or the "Company" refer to Deckers Outdoor Corporation, together with its consolidated subsidiaries. UGG® (UGG), Teva® (Teva), Sanuk® (Sanuk), Hoka One One® (Hoka), Koolaburra® (Koolaburra), Ahnu® (Ahnu) and UGGpure™ (UGGpure) are some of our trademarks.

Certain reclassifications were made for all prior periods presented including the fiscal years ended March 31, 2017, 2016 and 2015, the quarter ended March 31, 2014 (transition period) and the year ended December 31, 2013, to conform to the current period presentation.

Unless otherwise specifically indicated, all dollar amounts in Items 5, 6, 7 and 7A herein are expressed in thousands, except for per share data. The defined periods for the fiscal years ended March 31, 2018, 2017, and 2016 are stated herein as "year ended" or "years ended".

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has traded under the symbol "DECK" on the New York Stock Exchange (NYSE) since May 5, 2014 and was traded on the NASDAQ Global Select Market prior to that date.

The following table shows the range of low and high closing sale prices per share of our common stock, based on the last daily sale, for the periods indicated.

	Common Stock Price Per Share	
	Low	High
Year Ended March 31, 2018		
Fourth Quarter	$78.96	$98.29
Third Quarter	64.57	80.25
Second Quarter	61.60	69.43
First Quarter	55.78	71.92
Year Ended March 31, 2017		
Fourth Quarter	$44.99	$60.98
Third Quarter	50.76	64.80
Second Quarter	56.99	68.57
First Quarter	48.89	59.25

At May 11, 2018, we had approximately 43 stockholders of record based upon the records of our transfer agent, which does not include beneficial owners of our common stock whose shares are held in the names of various securities brokers, dealers and registered clearing agencies.

We did not sell any equity securities during the year ended March 31, 2018 that were not registered under the Securities Act of 1933, as amended (Securities Act).

Stock Performance Graph

Below is a graph comparing the percentage change in the cumulative total stockholder return on our common stock against the cumulative total return of the NYSE Composite Index, and the S&P 500 Apparel, Accessories &

Luxury Goods Index for the five-year period commencing December 31, 2012 and ending March 31, 2018, excluding the transition period for the quarter ended March 31, 2014. The data represented below assumes one hundred dollars invested in each share of our common stock, the NYSE Composite Index and the S&P 500 Apparel, Accessories & Luxury Goods Index on January 1, 2013. The NYSE Composite Index is an index that measures the performance of all stocks listed on the NYSE.

The stock performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act, or under the Securities Exchange Act of 1934, as amended (Exchange Act), except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under either of the Securities Act or Exchange Act. Total return assumes reinvestment of dividends, though we have not declared or paid any cash dividends on our common stock since our inception.

The following table assumes one hundred dollars invested on January 1, 2013 and assumes dividends are reinvested.

	January 1,	Year Ended December 31,	Years Ended March 31,			
	2013	2013	2015	2016	2017	2018
Deckers Outdoor Corporation	$100.0	$ 209.7	$181.0	$148.8	$148.3	$223.6
S&P 500 Apparel, Accessories & Luxury Goods Index	100.0	124.9	119.3	105.9	84.2	108.0
The NYSE Composite Index	100.0	126.4	138.7	133.5	154.4	171.4

Dividend Policy

We have not declared or paid any cash dividends on our common stock since our inception. We currently do not anticipate declaring or paying any cash dividends in the foreseeable future. Our current revolving credit agreements allow us to declare and pay cash dividends, as long as no event of default has occurred under these arrangements. At March 31, 2018, we were in compliance with this provision and we remain in compliance as of May 25, 2018.

Stock Repurchase Program

In January 2015, our Board of Directors approved a stock repurchase program to repurchase up to $200,000 of our common stock in the open market or in privately-negotiated transactions, subject to market conditions, applicable legal requirements, and other factors. In October 2017, our Board of Directors authorized a new $335,000 stock repurchase program. Since inception through March 31, 2018, we have repurchased approximately 3,722,502 shares under these combined programs for approximately $284,393, or an average price of $76.40 per share, leaving the remaining approved amount at approximately $250,607. Our repurchase programs do not obligate us to acquire any particular amount of common stock and may be suspended at any time at our discretion.

Refer to Note 8, "Stockholders' Equity," of our consolidated financial statements in Part IV of this Annual Report on Form 10-K for further information on repurchases of our common stock.

The following table summarizes the stock repurchase activity under the programs discussed above during the three months ended March 31, 2018:

	Total number of shares purchased* (in thousands)	Average price paid per share	Approximate dollar value of shares added/(purchased)	Approximate dollar value of shares that may yet be purchased
February 1, 2018 — February 28, 2018	930	$ 93.85	$ (87,293)	$ 288,314
March 1, 2018 — March 31, 2018	412	91.56	(37,707)	250,607

*All shares were repurchased as part of publicly-announced programs in open-market transactions.

Item 6. Selected Financial Data

Change in Fiscal Year

In February 2014, our Board of Directors approved a change in our fiscal year end from December 31st to March 31st. The change was intended to better align our planning, financial and reporting functions with the seasonality of our business. The fiscal years 2018 through 2015, as presented below, relate to the years ended March 31, 2018, 2017, 2016 and 2015, respectively. The 2014 transition period relates to the quarter ended March 31, 2014 to coincide with the change in our fiscal year end. The 2013 year relates to the calendar year ended December 31, 2013.

Consolidated Financial Data

We derived the following selected consolidated financial data from our consolidated financial statements.

The financial data are derived from, and qualified by reference to, the following audited consolidated financial statements not included in this Annual Report on Form 10-K:

- Consolidated statements of comprehensive income (loss) for the fiscal year ended March 31, 2015, quarter ended March 31, 2014 (transition period), and the