SKECHERS USA INC
Form 10-Q
November 09, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from __________ to __________

Commission File Number 001-14429
SKECHERS U.S.A., INC.
(Exact name of registrant as specified in its charter)

Delaware	**95-4376145**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
228 Manhattan Beach Blvd. Manhattan Beach, California	**90266**
(Address of Principal Executive Office)	**(Zip Code)**

(310) 318-3100
(Registrant s Telephone Number, Including Area Code)

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filero

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

THE NUMBER OF SHARES OF CLASS A COMMON STOCK OUTSTANDING AS OF NOVEMBER 1, 2007: 32,880,988.

THE NUMBER OF SHARES OF CLASS B COMMON STOCK OUTSTANDING AS OF NOVEMBER 1, 2007: 12,851,789.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
FORM 10-Q
TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	September 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 121,158	$ 160,485
Short-term investments	103,075	60,000
Trade accounts receivable, less allowances of $12,486 in 2007 and $10,558 in 2006	206,312	177,740
Other receivables	9,063	8,035
Total receivables	215,375	185,775
Inventories	186,819	200,877
Prepaid expenses and other current assets	18,432	15,321
Deferred tax assets	9,490	9,490
Total current assets	654,349	631,948
Property and equipment, at cost, less accumulated depreciation and amortization	96,916	87,645
Intangible assets, less accumulated amortization	193	633
Deferred tax assets	11,984	11,984
Other assets, at cost	6,526	4,843
TOTAL ASSETS	$ 769,968	$ 737,053
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current installments of long-term borrowings	423	576
Accounts payable	126,902	161,150
Accrued expenses	14,580	19,435
Total current liabilities	141,905	181,161
4.50% convertible subordinated notes		89,969
Long-term borrowings, excluding current installments	16,567	16,836
Total liabilities	158,472	287,966

Commitments and contingencies				
Stockholders equity:				
Preferred Stock, \$.001 par value; 10,000 authorized; none issued and outstanding				
Class A Common Stock, \$.001 par value; 100,000 shares authorized; 32,875 and 28,103 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively		33		28
Class B Common Stock, \$.001 par value; 60,000 shares authorized; 12,852 and 13,768 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively		13		14
Additional paid-in capital		256,215		156,374
Accumulated other comprehensive income		13,559		11,200
Retained earnings		341,676		281,471
Total stockholders equity		611,496		449,087
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	769,968	$	737,053

See accompanying notes to unaudited condensed consolidate financial statements.

Table of Contents

SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share data)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2007	2006	2007	2006
Net sales	$ 395,033	$ 331,126	$ 1,092,140	$ 900,874
Cost of sales	223,363	184,823	619,403	505,461
Gross profit	171,670	146,303	472,737	395,413
Royalty income	998	1,359	3,392	2,912
	172,668	147,662	476,129	398,325
Operating expenses:				
Selling	37,657	35,703	105,448	86,951
General and administrative	98,431	77,476	274,888	222,212
	136,088	113,179	380,336	309,163
Earnings from operations	36,580	34,483	95,793	89,162
Other income (expense):				
Interest income	2,547	2,109	7,432	6,179
Interest expense	(837)	(2,361)	(3,589)	(6,975)
Other, net	298	69	129	328
	2,008	(183)	3,972	(468)
Earnings before income taxes	38,588	34,300	99,765	88,694
Income tax expense	13,844	12,101	36,173	32,281
Net earnings	$ 24,744	$ 22,199	$ 63,592	$ 56,413
Net earnings per share:				
Basic	$ 0.54	$ 0.54	$ 1.41	$ 1.38
Diluted	$ 0.53	$ 0.49	$ 1.37	$ 1.27
Weighted average shares:				
Basic	45,721	41,316	45,095	40,897
Diluted	46,654	46,199	46,769	45,936

Comprehensive income:								
Net earnings	$	24,744	$	22,199	$	63,592	$	56,413
Foreign currency translation adjustment, net of tax		3,261		(26)		2,359		2,904
Total comprehensive income	$	28,005	$	22,173	$	65,951	$	59,317

See accompanying notes to unaudited condensed consolidate financial statements.

Table of Contents

SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine-Months Ended September 30, 2007	Nine-Months Ended September 30, 2006
Cash flows from operating activities:		
Net earnings	$ 63,592	$ 56,413
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	12,499	12,280
Amortization of deferred financing costs	95	574
Amortization of intangible assets	322	378
Provision for bad debts and returns	3,197	5,261
Tax benefits from stock-based compensation	3,130	3,054
Non-cash stock compensation	874	1,608
Loss on disposal of equipment	248	71
(Increase) decrease in assets:		
Receivables	(30,140)	(41,075)
Inventories	14,313	(40,845)
Prepaid expenses and other current assets	(3,020)	(10,701)
Other assets	(1,505)	473
Increase (decrease) in liabilities:		
Accounts payable	(34,735)	30,972
Accrued expenses	(8,280)	(8,433)
Net cash provided by operating activities	20,590	10,030
Cash flows used in investing activities:		
Capital expenditures	(26,199)	(19,129)
Purchases of short-term investments	(160,050)	(48,074)
Maturities of short-term investments	116,975	
Net cash used in investing activities	(69,274)	(67,203)
Cash flows from financing activities:		
Net proceeds from the issuances of stock through employee stock purchase plan and the exercise of stock options	6,774	13,668
Payments on long-term debt	(425)	(809)
Excess tax benefits from stock-based compensation	320	3,054
Net cash provided by financing activities	6,669	15,913
Net decrease in cash and cash equivalents	(42,015)	(41,260)
Effect of exchange rates on cash and cash equivalents	2,688	1,051
Cash and cash equivalents at beginning of the period	160,485	197,007

Cash and cash equivalents at end of the period	$ 121,158	$ 156,798
Supplemental disclosures of cash flow information:		
Interest paid	$ 3,675	$ 5,554
Income taxes paid	39,701	41,428

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During the nine months ended September 30, 2007, the Company issued approximately 3.5 million shares of Class A common stock to note holders upon conversion of our 4.50% convertible subordinated debt with a carrying value of $89,969.

See accompanying notes to unaudited condensed consolidate financial statements.

5

Table of Contents

SKECHERS U.S.A., INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) GENERAL

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include certain footnotes and financial presentations normally required under accounting principles generally accepted in the United States of America for complete financial reporting. The interim financial information is unaudited but reflects all normal adjustments and accruals which are, in the opinion of management, considered necessary to provide a fair presentation for the interim periods presented. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2007.

Use of Estimates

The preparation of the condensed consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(2) SHORT-TERM INVESTMENTS

Short-term investments consist of certain marketable equity and debt securities and other investments aggregating $103.1 million at September 30, 2007 and $60.0 million at December 31, 2006 and are included in current assets in the accompanying condensed consolidated balance sheets. These securities are considered available-for-sale and recorded on the Company s books at fair market value with the unrealized gains and losses, net of tax, included in stockholders equity. Unrealized gains and losses related to marketable equity securities at September 30, 2007 and September 30, 2006 were negligible.

(3) REVENUE RECOGNITION

The Company recognizes revenue on wholesale sales when products are shipped and the customer takes title and assumes risk of loss, collection of relevant receivable is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. This generally occurs at time of shipment. The Company recognizes revenue from retail sales at the point of sale. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are provided for when related revenue is recorded. Related costs paid to third-party shipping companies are recorded as a cost of sales.

Royalty income is earned from licensing arrangements. Upon signing a new licensing agreement, we receive up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue as earned (*i.e.*, as licensed sales are reported to the company or on a straight-line basis over the term of the agreement). The first calculated royalty payment is based on actual sales of the licensed product. Typically, at each quarter-end we receive correspondence from our licensees indicating the actual sales for the period. This information is used to calculate and accrue the related royalties based on the terms of the agreement.

Table of Contents

(4) OTHER COMPREHENSIVE INCOME

The Company operates internationally through foreign subsidiaries. Assets and liabilities of the foreign operations denominated in local currencies are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the weighted average rate of exchange during the period of translation. The resulting translation adjustments along with the translation adjustments related to intercompany loans of a long-term investment nature are included in the translation adjustment in other comprehensive income.

(5) STOCK COMPENSATION

For stock-based awards we have recognized compensation expense based on the estimated grant date fair value using the Black-Scholes valuation model which requires the input of highly subjective assumptions including the expected stock price volatility, expected term and forfeiture rate. Stock compensation expense was $0.2 million and $0.4 million for the three months ended September 30, 2007 and 2006, respectively. Stock compensation expense was $0.9 million and $1.6 million for the nine months ended September 30, 2007 and 2006, respectively.

Shares subject to option under the Company s 1998 Stock Option, Deferred Stock and Restricted Stock Plan (the Equity Incentive Plan) were as follows:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM	AGGREGATE INTRINSIC VALUE
Outstanding at December 31, 2006	2,485,585	$ 11.74		
Granted				
Exercised	(430,147)	12.72		
Forfeited	(21,713)	16.95		
Outstanding at September 30, 2007	2,033,725	11.48	4.1 years	$21,886,003
Exercisable at September 30, 2007	2,019,725	11.47	4.1 years	$21,759,528

A summary of the status and changes of our nonvested shares related to the Equity Incentive Plan as of and during the nine months ended September 30, 2007 is presented below:

	SHARES	WEIGHTED AVERAGE GRANT-DATE FAIR VALUE
Nonvested at December 31, 2006	17,333	$ 16.38
Granted	2,500	29.26
Vested	(4,666)	17.00
Nonvested at September 30, 2007	15,167	18.32

(6) EARNINGS PER SHARE

Basic earnings per share represents net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share, in addition to the weighted average determined for basic earnings per share, includes potential common shares, if dilutive, which would arise from the exercise of stock options and nonvested shares using the treasury stock method, which in the current period includes consideration of

7

Table of Contents

average unrecognized stock-based compensation cost resulting from the adoption SFAS 123(R), and assumes the conversion of the Company s 4.50% convertible subordinated notes for the period in which they were outstanding.

The following is a reconciliation of net earnings and weighted average common shares outstanding for purposes of calculating basic earnings per share (in thousands, except per share amounts):

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
Basic earnings per share	**2007**	**2006**	**2007**	**2006**
Net earnings	$24,744	$22,199	$63,592	$56,413
Weighted average common shares outstanding	45,721	41,316	45,095	40,897
Basic earnings per share	$ 0.54	$ 0.54	$ 1.41	$ 1.38

The following is a reconciliation of net earnings and weighted average common shares outstanding for purposes of calculating diluted earnings per share (in thousands, except per share amounts):

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
Diluted earnings per share	**2007**	**2006**	**2007**	**2006**
Net earnings	$ 24,744	$ 22,199	$ 63,592	$ 56,413
After tax effect of interest expense on 4.50% convertible subordinated notes		655	359	1,932
Earnings for purposes of computing diluted earnings per share	$ 24,744	$ 22,854	$ 63,951	$ 58,345
Weighted average common shares outstanding	45,721	41,316	45,095	40,897
Dilutive effect of stock options	933	1,417	1,193	1,573
Weighted average shares to be issued assuming conversion of 4.50% convertible subordinated notes		3,466	481	3,466
Weighted average common shares outstanding	46,654	46,199	46,769	45,936
Diluted earnings per share	$ 0.53	$ 0.49	$ 1.37	$ 1.27

Options to purchase 147,500 and 169,500 shares of Class A common stock were excluded from the computation of diluted earnings per share for the three months ended September 30, 2007 and 2006, respectively. There were no options excluded from the computation for the nine month period ended September 30, 2007. Options to purchase 169,500 shares of Class A common stock were excluded from the computation of diluted earnings per share for the nine months ended September 30, 2006. The options outstanding that were excluded from the computation of diluted earnings per share were not included because their effect would have been anti-dilutive.

(7) INCOME TAXES

The Company s effective tax rates for the third quarter and first nine months of 2007 were 35.9% and 36.3%, respectively, compared to the effective tax rates of 35.3% and 36.4% for the third quarter and first nine months of 2006, respectively. Income tax expense for the three months ended September 30, 2007 was $13.8 million compared to $12.1 million for the same period in 2006. Income tax expense for the nine months ended September 30, 2007 was $36.2 million compared to $32.3 million for the same period in 2006. The tax provision for the nine months ended September 30, 2007 was computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. The rate for the three- and nine-month periods ended September 30, 2007 is lower than the expected domestic rate of approximately 40% due to our non-U.S. subsidiary earnings in lower tax rate jurisdictions and our planned permanent reinvestment of undistributed earnings from our non-U.S. subsidiaries, thereby indefinitely postponing their repatriation to the United States. As such, the Company did not provide for deferred income taxes on accumulated undistributed earnings of our non-U.S. subsidiaries.

Table of Contents

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48) *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109* . FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted FIN 48 as of January 1, 2007 and increased our existing unrecognized tax benefits by $3.4 million to $11.0 million. The increase was related primarily to state income tax and transfer-pricing issues. This increase was recorded as a cumulative effect adjustment to retained earnings. The adoption of FIN 48 did not have a material impact on our results of operations. The amount of unrecognized tax benefit increased during the nine months ended September 30, 2007 by $5.6 million to $16.6 million, due primarily to unrecognized transfer pricing tax benefits resulting from ongoing operations. If recognized, the entire amount of unrecognized tax benefit would be recorded as a reduction in income tax expense. It is reasonably possible that current tax examinations could be completed during the year and it is reasonably possible that our unrecognized tax benefit could change; however, we do not expect any such change to be material.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of income tax expense in the Condensed Consolidated Statement of Earnings and totaled $0.1 million for the three months ended September 30, 2007 and $0.2 million for the nine months ended September 30, 2007. Estimated interest and penalties for the three and nine month period ended September 30, 2006 were less than $0.1 million. Accrued interest and penalties were $1.3 million and $1.1 million as of September 30, 2007 and December 31, 2006, respectively.

The Company files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. The Company has completed U.S. federal audits through 2003, and is not currently under examination by the United States Internal Revenue Service (the IRS); however the company is under examination by a number of states. With few exceptions, the Company is no longer subject to state, local or non-U.S. income tax examinations by tax authorities for years before 2004. Tax years 2004 through 2006 remain open to examination by the U.S. federal, state, and foreign taxing jurisdictions under which we are subject. We believe that we have made adequate provision for all income tax uncertainties pertaining to these open years.

(8) LINE OF CREDIT

The Company has a secured line of credit, expiring on May 31, 2011, which permits the Company and certain of its subsidiaries to borrow up to $150.0 million based upon eligible accounts receivable and inventory, which line can be increased to $250.0 million at our request. The loan agreement provides for the issuance of letters of credit up to a maximum of $30.0 million. The loan agreement contains customary affirmative and negative covenants for secured credit facilities of this type. The Company was in compliance with all other covenants of the loan agreement at September 30, 2007. The Company had approximately $6.0 million of outstanding letters of credit as September 30, 2007.

(9) LITIGATION

On March 25, 2003, a shareholder securities class action complaint captioned HARVEY SOLOMON v. SKECHERS USA, INC. et al. was filed against the Company and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-2094 DDP). On April 2, 2003, a shareholder securities class action complaint captioned CHARLES ZIMMER v. SKECHERS USA, INC. et al. was filed against the Company and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-2296 PA). On April 15, 2003, a shareholder securities class action complaint captioned MARTIN H. SIEGEL v. SKECHERS USA, INC. et al. was filed against the Company and certain of its officers and directors in the United States District Court for the Central District of California (Case No 03-2645 RMT). On May 6, 2003, a shareholder securities class action complaint captioned ADAM D. SAPHIER v. SKECHERS USA, INC.

et al. was served on the Company and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-3011 FMC). On May 9, 2003, a shareholders securities class action complaint captioned LARRY L. ERICKSON v. SKECHERS USA, INC. et al. was served on the Company and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-3101 SJO). Each of these class action complaints alleged violations of the federal securities laws on behalf of persons who purchased publicly traded securities of the Company between April 3, 2002 and December 9, 2002. In July 2003, the court in these federal securities class actions, all pending in the United States District Court for the Central District of California, ordered the cases consolidated and a consolidated complaint to be filed and served. On September 25, 2003, the plaintiffs filed a consolidated complaint entitled In re SKECHERS USA, Inc. Securities Litigation, Case No. CV-03-2094-PA in the United States District Court for the Central District of California, consolidating all of the federal securities actions above. The complaint names as defendants the Company and certain officers and directors and alleges violations of the federal securities laws and breach of fiduciary duty on behalf of persons who purchased publicly traded securities of the Company between April 3, 2002 and December 9, 2002. The complaint seeks compensatory damages, interest, attorneys fees and injunctive and equitable relief. The Company moved to dismiss the consolidated complaint in its entirety. On May 10, 2004, the court granted the Company s motion to dismiss with leave for plaintiffs to amend the complaint. On August 9, 2004, plaintiffs filed a first amended consolidated complaint for violations of the federal securities laws. The allegations and relief sought were virtually identical to the original consolidated complaint. The Company has moved to dismiss the first amended consolidated complaint and the motion was set for hearing on December 6, 2004. On March 21, 2005, the court granted the motion to dismiss the first amended consolidated complaint with leave for plaintiffs to amend one final time. On April 7, 2005, plaintiffs elected to stand on the first amended consolidated complaint and requested entry of judgment so that an appeal from the court s ruling could be taken. On April 26, 2005, the court entered judgment in favor of the Company and the individual defendants, and on May 3, 2005, plaintiffs filed an appeal with the United States Court of Appeals for the Ninth Circuit. As of the filing date of the Company s quarterly report for the first quarter of 2007, all briefing by the parties had been completed, and a hearing date had been scheduled for April 18, 2007, but the court took it off calendar pending a decision from the United States Supreme Court in another matter on the grounds that the decision from the Supreme Court could affect the outcome of the appeal. The United States Supreme Court handed down its decision in that matter on September 20, 2007. The parties prepared briefs based on that decision and oral arguments were presented before the Ninth Circuit on November 6, 2007. Discovery has not commenced in the underlying action. While it is too early to predict the outcome of the appeal and any subsequent litigation, the Company continues to believe the suit is without merit and continues to vigorously defend against the claims.

On January 26, 2007, Asics America Corporation and Asics Corporation (Japan) (collectively, Asics) filed a lawsuit in the U.S. District Court for the Central District of California (Case No. SACV 07-0103 AG (PJWx)) against the Company, Zappos.com, Inc., Brown Shoe Company, Inc. dba Famousfootwear.com and Brown Group Retail, Inc. dba Famous Footwear U.S.A., Inc. alleging trademark infringement, unfair competition, trademark dilution and false advertising arising out of the Company s alleged use of marks similar to Asics stripe design mark. The lawsuit seeks, inter alia, compensatory, treble and punitive damages, profits, attorney s fees and costs. Thereafter, Asics filed an amended complaint which added a claim for trade dress infringement. On March 12, 2007, Asics filed a motion for a preliminary injunction against the Company seeking to prevent any future sales or distribution of the shoes that are the subject of the lawsuit. After hearing oral arguments, the court, on April 25, 2007, denied Asics motion finding that Asics had not shown that it is likely to prevail on the merits or that the balance of hardships tips in its favor. On April 30, 2007, the Company answered Asics complaint and filed a counter-claim seeking a declaration that none of the Company s designs infringe upon Asics trademark, trade dress or other proprietary rights. The parties reached a confidential agreement in principle and signed a memorandum of understanding on July 5, 2007. The parties reduced to writing and finalized a formal settlement agreement based on the memorandum of understanding. The settlement did not have a material adverse effect on the Company s financial condition or results of operations.

On March 15, 2007, the Company filed a lawsuit against Vans, Inc. in the U.S. District Court for the Central District of California (Case No. CV 07-10703 (PLA)) seeking a declaration, i