

LACROSSE FOOTWEAR INC

Form 10-Q

October 27, 2009

Table of Contents

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

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

For the quarterly period ended September 26, 2009

or

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

For the transition period from _____ to _____

**Commission File Number 000-23800
LaCrosse Footwear, Inc.**

(Exact name of Registrant as specified in its charter)

Wisconsin

39-1446816

(State or other jurisdiction of incorporation or organization)

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

**17634 NE Airport Way
Portland, Oregon 97230**

(Address, zip code of principal executive offices)

(503) 262-0110

(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 No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Common Stock, \$.01 par value, outstanding as of October 23, 2009: 6,329,636 shares

LACROSSE FOOTWEAR, INC.
Form 10-Q Index

	Page
<u>PART I.</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of September 26, 2009 (Unaudited) and September 27, 2008 (Unaudited) and December 31, 2008</u>	3
<u>Condensed Consolidated Statements of Income (Unaudited) for the quarters and three quarters ended September 26, 2009 and September 27, 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the three quarters ended September 26, 2009 and September 27, 2008</u>	5
<u>Notes to Interim Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	15
<u>Item 4.</u>	
<u>Controls and Procedures</u>	15
<u>PART II.</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	15
<u>Item 1A.</u>	
<u>Risk Factors</u>	15
<u>Item 6</u>	
<u>Exhibits</u>	17
<u>Signatures</u>	18
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements****LACROSSE FOOTWEAR, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 26, 2009 <i>(unaudited)</i>	December 31, 2008	September 27, 2008 <i>(unaudited)</i>
<i>(in thousands, except share and per share data)</i>			
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 3,495	\$ 13,683	\$ 4,316
Trade and other accounts receivable, net	27,931	22,449	31,960
Inventories (Note 2)	34,549	28,618	30,769
Prepaid expenses	1,017	1,402	994
Deferred tax assets	1,302	1,364	1,234
Total current assets	68,294	67,516	69,273
Property and equipment, net	8,685	6,137	5,018
Goodwill	10,753	10,753	10,753
Other assets	298	159	420
Total assets	\$ 88,030	\$ 84,565	\$ 85,464
Liabilities and Shareholders' Equity:			
Current Liabilities:			
Accounts payable	\$ 11,688	\$ 10,288	\$ 11,020
Accrued compensation	2,546	3,151	2,947
Other accruals (Note 3)	1,893	2,528	3,472
Total current liabilities	16,127	15,967	17,439
Deferred revenue	263	375	413
Deferred lease obligations	599	190	178
Compensation and benefits (Note 6)	5,424	5,844	1,564
Deferred tax liabilities	2,174	777	2,330
Total liabilities	24,587	23,153	21,924
Shareholders' Equity:			
Common stock, par value \$.01 per share; authorized 50,000,000 shares; issued 6,717,627 shares	67	67	67
Additional paid-in capital	28,857	28,247	28,031
Accumulated other comprehensive loss (Note 8)	(3,703)	(4,029)	(1,195)
Retained earnings (Notes 7 and 10)	39,997	39,173	38,770

Edgar Filing: LACROSSE FOOTWEAR INC - Form 10-Q

Less cost of 400,591, 464,496 and 484,741 shares of treasury stock, respectively	(1,775)	(2,046)	(2,133)
Total shareholders' equity	63,443	61,412	63,540
Total liabilities and shareholders' equity	\$ 88,030	\$ 84,565	\$ 85,464

See notes to interim unaudited condensed consolidated financial statements.

-3-

Table of Contents

LACROSSE FOOTWEAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Quarter Ended		Three Quarters Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
<i>(in thousands, except per share data)</i>				
Net sales	\$ 40,761	\$ 40,265	\$ 96,647	\$ 92,807
Cost of goods sold	25,040	24,478	58,877	55,717
Gross profit	15,721	15,787	37,770	37,090
Selling and administrative expenses	11,815	11,234	32,912	29,140
Operating income	3,906	4,553	4,858	7,950
Non-operating income (expense)	(235)	(54)	(304)	57
Income before income taxes	3,671	4,499	4,554	8,007
Income tax provision (Note 4)	1,450	1,731	1,367	3,024
Net income	\$ 2,221	\$ 2,768	\$ 3,187	\$ 4,983
Net income per common share (Note 1):				
Basic	\$ 0.35	\$ 0.44	\$ 0.51	\$ 0.80
Diluted	\$ 0.35	\$ 0.43	\$ 0.50	\$ 0.78
Weighted average number of common shares outstanding:				
Basic	6,307	6,229	6,293	6,204
Diluted	6,403	6,436	6,364	6,416
<i>See notes to interim unaudited condensed consolidated financial statements.</i>				

-4-

Table of Contents

LACROSSE FOOTWEAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Quarters Ended	
	September 26, 2009	September 27, 2008
<i>(in thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 3,187	\$ 4,983
Adjustments to reconcile net income to net cash provided by (used in) operating activities, net of effects of acquisitions:		
Depreciation and amortization	2,041	1,368
Stock-based compensation expense (Note 5)	448	454
Deferred income taxes	1,366	15
Loss on disposal of property and equipment	194	2
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade and other accounts receivable	(5,482)	(9,367)
Inventories	(5,778)	(469)
Accounts payable	1,400	3,564
Accrued expenses and other	(735)	936
Net cash provided by (used in) operating activities	(3,359)	1,486
Cash flows from investing activities:		
Purchases of property and equipment	(4,723)	(1,504)
Proceeds from sale of property and equipment	33	
Acquisitions	(388)	(3,169)
Net cash used in investing activities	(5,078)	(4,673)
Cash flows from financing activities:		
Cash dividends paid (Note 7)	(2,362)	(8,541)
Purchase of treasury stock		(95)
Proceeds from exercise of stock options	432	938
Net cash used in financing activities	(1,930)	(7,698)
Effect of foreign currency exchange rate changes on cash and cash equivalents	179	(184)
Net decrease in cash and cash equivalents	(10,188)	(11,069)
Cash and cash equivalents:		
Beginning of period	13,683	15,385

End of period	\$ 3,495	\$ 4,316
Supplemental information:		
Cash payments for income taxes	\$ 322	\$ 2,004

See notes to interim unaudited condensed consolidated financial statements.

Table of Contents**LACROSSE FOOTWEAR, INC.****Notes to Interim Unaudited Condensed Consolidated Financial Statements****NOTE 1. INTERIM FINANCIAL REPORTING**

Basis of Presentation LaCrosse Footwear, Inc. (NASDAQ: BOOT) is referred to as we, us, or our in this report. The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, we have condensed or omitted certain information and footnote disclosures that are included in our annual financial statements. These condensed unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2008. These condensed consolidated financial statements reflect, in the opinion of management, all adjustments (which consist of normal, recurring adjustments) necessary for a fair presentation of the financial position and results of operations and cash flows for the periods presented.

These condensed consolidated financial statements include the accounts of LaCrosse Footwear, Inc., and our wholly owned subsidiaries, Danner, Inc., LaCrosse International, Inc., LaCrosse Europe, Inc., and Environmentally Neutral Design Outdoor, Inc. (END). LaCrosse Europe, Inc. and its wholly-owned subsidiary, LaCrosse Europe ApS, were formed during the third quarter of 2008 to expand our direct sales and marketing support to our European customers. In August, 2009 we announced our plans to discontinue END as a standalone footwear brand and to integrate its platform of lightweight footwear designs into the Danner brand. All material inter-company accounts and transactions have been eliminated in consolidation.

We report our quarterly interim financial information based on 13-week periods. The nature of the 13-week calendar requires that all periods end on a Saturday, and that the year end on December 31. As a result, every first quarter and every fourth quarter have a unique number of days. The results of the interim periods are not necessarily indicative of the results for the full year. Historically, our net sales and operating income have been more heavily weighted to the second half of the year.

Use of Estimates We are required to make certain estimates and assumptions which affect the amounts of assets, liabilities, revenues and expenses we have reported, and our disclosure of any contingent assets and liabilities at the date of the financial statements. Actual results could differ materially from these estimates and assumptions.

Reclassifications Certain amounts in the prior periods' condensed consolidated balance sheets have been reclassified to conform with the 2009 presentation.

Net Income per Common Share We present our net income on a per share basis for both basic and diluted common shares. Basic net income per common share is computed using the weighted average number of common shares outstanding during the period. The diluted net income per common share calculation assumes that all stock options were exercised and converted into common stock at the beginning of the period, unless their effect would be anti-dilutive. A reconciliation of the shares used in the basic and diluted net income per common share is as follows:

	Quarter Ended		Three Quarters Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
<i>(in thousands)</i>				
Basic weighted average shares outstanding	6,307	6,229	6,293	6,204
Dilutive stock options	96	207	71	212
Diluted weighted average shares outstanding	6,403	6,436	6,364	6,416

Table of Contents**NOTE 2. INVENTORIES**

A summary of inventories is presented below:

	September 26, 2009	December 31, 2008	September 27, 2008
<i>(in thousands)</i>			
Raw materials	\$ 4,530	\$ 3,590	\$ 2,796
Work in process	351	316	313
Finished goods	30,297	25,161	28,166
Subtotal	35,178	29,067	31,275
Less: provision for slow-moving inventories	(629)	(449)	(506)
Total	\$ 34,549	\$ 28,618	\$ 30,769

NOTE 3. PRODUCT WARRANTY

We provide a limited warranty for the replacement of defective products. Our limited warranty requires us to repair or replace defective products at no cost to the consumer within a specified time period after sale. We estimate the costs that may be incurred under our limited warranty and record a liability in the amount of such costs at the time product revenue is recognized. Factors that affect our estimate of warranty liability include sales volume, and historical and anticipated future rates of warranty claims. Changes in the accrued product warranty costs during the quarters and three quarters ended September 26, 2009 and September 27, 2008, which are included in other accruals on our condensed consolidated balance sheets, are summarized as follows:

	Quarter Ended		Three Quarters Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
<i>(in thousands)</i>				
Balance, beginning of period	\$ 1,234	\$ 1,097	\$ 1,266	\$ 941
Accruals for products sold	512	645	1,808	2,106
Warranty claims	(450)	(452)	(1,778)	(1,757)
Balance, end of period	\$ 1,296	\$ 1,290	\$ 1,296	\$ 1,290

NOTE 4. INCOME TAXES

On a quarterly basis, we estimate what our effective tax rate will be for the full fiscal year and record a quarterly income tax provision based on the anticipated rate. As the year progresses, we refine our estimate based on the facts and circumstances by each tax jurisdiction. The effective tax rate for the quarters ended September 26, 2009 and September 27, 2008 were 39.5% and 38.5%, respectively. The year to date effective tax rates for the periods ended September 26, 2009 and September 27, 2008 were 30.0% and 37.8%, respectively. The increase in our third quarter effective tax rate in 2009 is due to an increase in our state statutory tax rate as well as the impact of discrete items arising from the completion of our 2008 tax return in the quarter relative to our year-to-date income before income taxes. The decrease in the year to date tax rate from 2008 is primarily due to a reduction in our reserve for uncertain tax positions as a result of the completion of an Internal Revenue Service examination for the tax years 2005 through 2007 during the second quarter of 2009 as well as the adoption of a new transfer pricing policy for our European business operations.

Our policy is to accrue interest related to potential underpayment of income taxes within the provision for income taxes. The liability for accrued interest as of September 26, 2009, December 31, 2008, and September 27, 2008 was \$0.02 million, \$0.05 million and \$0.03 million, respectively. Interest is computed on the difference between our

reserve for uncertain tax positions and the amount deducted or expected to be deducted in our tax returns. We file a consolidated U.S. federal income tax return as well as state tax returns on a consolidated, combined, or stand-alone basis (depending upon the jurisdiction). As noted above, we have completed an Internal Revenue Service examination through the 2007 tax year. Depending on the jurisdiction, we are no longer subject to state examinations by tax authorities for years prior to the December 2003 and 2004 tax years. We are not subject to foreign tax examinations prior to the December 2008 tax year.

-7-

Table of Contents**NOTE 5. STOCK-BASED COMPENSATION**

We recognized \$0.4 million and \$0.5 million of stock-based compensation expense for the three quarters ended September 26, 2009 and September 27, 2008, respectively. We use the Black-Scholes option-pricing model to calculate the stock-based compensation expense. Our determination of fair value of option-based awards on the date of grant using the Black-Scholes model is affected by subjective assumptions regarding certain variables. These variables include, but are not limited to, our expected dividend yield, our expected stock price volatility over the expected term of the awards, the risk-free interest rates, the estimated forfeiture rates, and the expected life of the options. The risk-free interest rate assumption is based on treasury instruments whose terms are consistent with the expected life of the stock options granted. The expected dividend yield, volatility, life of options, and forfeiture of options assumptions are based on historical experience.

The following table lists the assumptions we used in determining the fair value of stock options and the resulting weighted average fair value of options granted:

	September 26, 2009	September 27, 2008
Expected dividend yield	3.7%	2.9%
Expected stock price volatility	46%	31%
Risk-free interest rate	1.4%	3.2%
Expected life of options	4.6 years	4.5 years
Estimated forfeiture rate	16%	16%
Weighted average fair value of options granted	\$3.25	\$ 3.92

The following table represents stock option activity for the quarter ended September 26, 2009:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life
Outstanding options at beginning of period	866,341	\$ 11.53	
Granted	30,250	9.68	
Exercised	(15,780)	8.27	
Canceled	(40,413)	12.70	
Outstanding options at end of period	840,398	11.46	4.9 years
Outstanding exercisable at end of period	430,466	9.82	4.3 years

At September 26, 2009, the aggregate intrinsic value of options outstanding was \$1.5 million, and the aggregate intrinsic value of exercisable options was \$1.3 million. The intrinsic value of options exercised during the quarter ended September 26, 2009 was less than \$0.1 million.

Table of Contents**NOTE 6. COMPENSATION AND BENEFIT PLANS**

We have a defined benefit pension plan covering eligible past employees and approximately 1% of current employees. We also sponsor an unfunded defined benefit postretirement death benefit plan that covers eligible past employees.

Information relative to these two plans is presented below.

	Pension Plan		Other Plan	
	Quarter Ended		Quarter Ended	
	September	September	September	September
<i>(in thousands)</i>	26,	27,	26,	27,
	2009	2008	2009	2008
Cost (income) recognized during the quarter:				
Interest cost	\$ 236	\$ 238	\$ 4	\$ 4
Expected return on plan assets	(199)	(274)		
Amortization of prior loss	48			
Amortization of prior service cost		4		
Net period cost (income)	\$ 85	\$ (32)	\$ 4	\$ 4

	Pension Plan		Other Plan	
	Three Quarters Ended		Three Quarters Ended	
	September	September	September	September
<i>(in thousands)</i>	26,	27,	26,	27,
	2009	2008	2009	2008
Cost (income) recognized during the first three quarters:				
Interest cost	\$ 708	\$ 714	\$ 12	\$ 12
Expected return on plan assets	(597)	(822)		
Amortization of prior loss	144			
Amortization of prior service cost		12		
Net period cost (income)	\$ 255	\$ (96)	\$ 12	\$ 12

The following is a reconciliation to the compensation and benefits financial statement line item on the accompanying condensed consolidated balance sheets:

	September	December	September
<i>(in thousands)</i>	26,	31,	27,
	2009	2008	2008
Pension Plan	\$ 5,132	\$ 5,565	\$ 1,271
Other Plan	292	279	293
Total compensation and benefits	\$ 5,424	\$ 5,844	\$ 1,564

We contributed \$0.6 million to our defined benefit pension plan during the first three quarters of 2009 and anticipate making no further contributions during the remainder of 2009.

NOTE 7. CASH DIVIDENDS

On July 27, 2009, we announced a third quarter cash dividend of twelve and one-half cents (\$0.125) per share of our common stock. This dividend of \$0.8 million was paid on September 18, 2009 to shareholders of record as of the

close of business on August 22, 2009. Year to date dividends paid totaled \$2.4 million through the third quarter of 2009 and \$8.5 million for the same period in 2008. In the first quarter of 2008, a special dividend of \$1.00 per common share was paid which totaled \$6.3 million.

-9-

Table of Contents**NOTE 8. COMPREHENSIVE INCOME****Comprehensive Income:**

Comprehensive income represents net income plus any revenue, expenses, gains and losses that are specifically excluded from net income and recognized directly as a component of shareholders' equity.

The reconciliation from net income to comprehensive income is as follows:

	Quarter Ended		Three Quarters Ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
<i>(in thousands)</i>				
Net income	\$2,221	\$ 2,768	\$3,187	\$ 4,983
Other comprehensive income (loss):				
Minimum pension liability, net of tax	30		147	
Foreign currency translation adjustment	125	(184)	179	(184)
Comprehensive income	\$2,376	\$ 2,584	\$3,513	\$ 4,799

Accumulated Other Comprehensive Loss:

Accumulated other comprehensive loss reported on our condensed consolidated balance sheets consists of adjustments related to foreign currency translation and minimum liabilities for pension benefits. The components of accumulated other comprehensive loss are as follows:

	September 26, 2009	December 31, 2008	September 27, 2008
<i>(in thousands)</i>			
Minimum pension liability, net of tax	\$(3,573)	\$(3,720)	\$(1,011)
Foreign currency translation adjustment	(130)	(309)	(184)
Accumulated other comprehensive loss	\$(3,703)	\$(4,029)	\$(1,195)

NOTE 9. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2009, the FASB issued SFAS No. 168 (now referred to as FASB ASC 105), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. FASB ASC 105 establishes the *FASB Accounting Standards Codification* (Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements. FASB ASC 105 is effective for financial statements issued for interim periods and annual periods ending after September 15, 2009. The adoption of this standard changes the manner in which U.S. GAAP guidance is referenced in our financial statements. FASB ASC 105 is effective for us in the third quarter of 2009, and we have complied with such provisions in the financial statements presented herein.

NOTE 10. SUBSEQUENT EVENT

We have evaluated subsequent events through October 27, 2009, the date our financial statements were issued and filed with the SEC.

On October 26, 2009, we announced a fourth quarter cash dividend of twelve and one-half cents (\$0.125) per share of our common stock. This dividend will be paid on December 18, 2009 to shareholders of record as of the close of business on November 22, 2009. The total cash payment for this dividend will be approximately \$0.8 million.

Table of Contents

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the following Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements relate to future events and typically address the Company's expected future business and financial performance. Words such as plan, expect, aim, believe, project, target, anticipate, intend, should, could and other terms of similar meaning, typically identify such forward-looking statements. The Company assumes no obligation to update or revise any forward-looking statements to reflect the occurrence or non-occurrence of future events or circumstances.

The forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, statements regarding competitive advantages of our product offerings and operational excellence, future cash dividend policies and the adequacy of our existing resources and anticipated cash flows from operations to satisfy our future working capital needs. Forward-looking statements are based on certain assumptions and expectations of future events and trends that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those reflected in any such forward-looking statements depending on a variety of factors, including without limitation, economic, competitive and governmental factors outside of our control. For more information concerning these factors and other risks and uncertainties that could materially affect our results of operations, please refer to Part I, Item 1A Risk Factors, of our 2008 Annual Report on Form 10-K, as may be supplemented or amended in our 2009 quarterly reports on Form 10-Q, which information is incorporated herein by reference.

Overview

Our mission is to maximize the work and outdoor experience for our consumers. To achieve this, we design, develop, manufacture and market premium-quality, high-performance footwear and apparel, supported by compelling marketing and superior customer service. Our trusted Danner® and LaCrosse® brands are sold through our five channels of distribution: 1) retail 2) specialty work 3) government 4) direct and 5) international. We focus on two types of consumers for our footwear and apparel lines: work and outdoor. Work consumers include people in law enforcement, transportation, mining, oil and gas exploration and extraction, construction, military services and other occupations that require high-performance and protective footwear as a critical tool for the job. Outdoor consumers include people active in hunting, outdoor cross-training, hiking and other outdoor recreational activities.

Weather, especially in the fall and winter, has been, and will likely continue to be, a significant contributing factor impacting our financial performance. Sales are typically higher in the second half of the year due to stronger demand for our cold and wet weather outdoor product offerings. We augment these offerings by infusing innovative technology into all product categories with the intent to create additional demand in all four quarters of the year.

Our sales growth continues to be driven by the success of our new product lines, our ability to meet at-once demand, and our ability to diversify and strengthen our portfolio of sales channels. Our recent sales volumes to the U.S. military has offset the global, broad-based economic slowdown which continues to negatively impact the retail and specialty work market sectors.

While we expect that the current challenging economic landscape will continue to impact us in the near term, we believe that the strength of our product offerings combined with our operational excellence focused on customer service and our strong balance sheet provides us with competitive advantages in our markets over the long term.

Table of Contents**Results of Operations**

The following table sets forth selected financial information derived from our interim unaudited condensed consolidated financial statements. The discussion that follows the table should be read in conjunction with the interim unaudited condensed consolidated financial statements. In addition, please see Management's Discussion and Analysis of Financial Condition and Results of Operations, our consolidated annual financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2008.

	Quarter Ended			Three Quarters Ended		
	September 26, 2009	September 27, 2008	% Change	September 26, 2009	September 27, 2008	% Change
(\$ in thousands)						
Net Sales	\$40,761	\$40,265	1%	\$96,647	\$92,807	4%
Gross Profit	15,721	15,787	(0%)	37,770	37,090	2%
Gross Profit %	38.6%	39.2%	(60 bps)	39.1%	40.0%	(90 bps)
Selling and Administrative Expenses	11,815	11,234	5%	32,912	29,140	13%
% of Net Sales	29.0%	27.9%	110 bps	34.1%	31.4%	270 bps
Non-Operating Income (Expense)	(235)	(54)	335%	(304)	57	(633%)
Income Before Income Taxes	3,671	4,499	(18%)	4,554	8,007	(43%)
Income Tax Provision	1,450	1,731	(16%)	1,367	3,024	(55%)
Net Income	2,221	2,768	(20%)	3,187	4,983	(36%)
Trade and other accounts receivable, net	27,931	31,960	(13%)			
Inventories	34,549	30,769	12%			

Quarter Ended September 26, 2009 Compared to Quarter Ended September 27, 2008:

Net Sales: Net sales for the third quarter of 2009 increased 1%, to \$40.8 million, from \$40.3 million in the same period of 2008. Sales to the work market were \$22.1 million for the third quarter of 2009, up 14% from \$19.5 million for the same period of 2008. The growth in work market sales reflects continued penetration into various areas of the U.S. military. Sales to the outdoor market were \$18.7 million for the third quarter of 2009, down from \$20.8 million for the same period of 2008, reflecting continued softness in the overall global retail environment.

Gross Profit: Gross profit for the third quarter of 2009 was 38.6% of net sales, compared to 39.2% in the same period of 2008. The decrease in gross profit of 60 basis points (bps) was due primarily to the impact a greater portion of the quarterly revenue coming from military delivery orders.

Selling and Administrative Expenses: Selling and administrative expenses in the third quarter of 2009 increased \$0.6 million, or 5%, to \$11.8 million from \$11.2 million in the same period of 2008. This increase resulted primarily from expenses of \$0.3 million of our subsidiary Environmentally Neutral Outdoor, Inc. (END), and the timing of certain marketing programs. We announced our plans to discontinue END as a standalone footwear brand in August, 2009 and to integrate the END platform of lightweight designs into the Danner brand.

Non-Operating Expense: Non-operating expense in the third quarter of 2009 increased by \$0.2 million compared with the same period of 2008, primarily as a result of a decrease in interest income due to lower rates in 2009 and certain property and equipment disposals related to END.

Income Tax Provision: We recognized an income tax expense at an effective rate of 39.5% for the third quarter of 2009 compared to 38.5% in the same period of 2008. The increase in the tax rate from 2008 is due to an increase in our state statutory tax rate as well as the impact of discrete items arising from the completion of our 2008 tax return in

the quarter relative to our year-to-date income before income taxes.

Net Income: Net income for the third quarter of 2009 was \$2.2 million, or \$0.35 diluted income per common share, compared to net income of \$2.8 million, or \$0.43 diluted earnings per common share in the same period of 2008. The net income decrease of \$0.6 million is attributable to the net sales, gross profit, expense and tax rate changes as discussed above.

Trade and Other Accounts Receivable, Net: Trade and other accounts receivable decreased \$4.0 million, or 13%, as compared to the third quarter of 2008. The decrease was due to improved collections during the third quarter, a shift from preseason to at once orders which generally carry shorter payment terms, and increased sales to the U.S. military which pays more timely than other sales channels.

-12-

Table of Contents

Inventories: Our year-over-year increase in inventories of \$3.8 million included \$2.3 million to support the increased domestic production for our military business, \$1.3 million for the planned build-up of certain core products for anticipated demand during the fall and winter seasons, and for certain other factors of \$0.2 million.

First Three Quarters of 2009 Compared to the First Three Quarters of 2008:

Net Sales: Net sales for the first three quarters of 2009 increased 4%, to \$96.6 million, from \$92.8 million in the same period of 2008. Sales to the work market were \$63.0 million for the first three quarters of 2009, up 15% from \$54.7 million for the same period of 2008. The growth in work market sales reflects continued penetration into various areas of the U.S. military. Sales to the outdoor market were \$33.6 million for the first three quarters of 2009, compared to \$38.1 million for the same period of 2008, reflecting continued softness in the overall global retail environment.

Gross Profit: Gross profit for the first three quarters of 2009 was 39.1% of net sales, compared to 40.0% in the same period of 2008. The decrease in gross profit of 90 basis points (bps) was primarily due to the impact of a greater portion of the year-to-date revenues coming from military delivery orders.

Selling and Administrative Expenses: Selling and administrative expenses in the first three quarters of 2009 increased \$3.8 million, or 13%, to \$32.9 million from \$29.1 million in the same period of 2008. This increase in expenses related to our European subsidiary which was started in July, 2008 (\$1.2 million), expenses associated with the establishment and operation of our new Indianapolis distribution center (\$1.1 million), bad debt expenses related to the bankruptcy of two significant retail customers during the first quarter (\$0.3 million), the operation of END (\$0.5 million) and other administrative costs (\$0.7 million).

Non-Operating Income (Expense): Non-operating income (expense) in the first three quarters of 2009 was \$0.3 million of expense compared with \$0.1 million of income in the same period of 2008, primarily as a result of a decrease in interest income due to lower rates in 2009 and certain property and equipment disposals related to END.

Income Tax Provision: We recognized an income tax expense at an effective rate of 30.0% for the first three quarters of 2009 compared to income tax expense at an effective tax rate of 37.8% in the same period of 2008. The decrease in the tax rate from 2008 is primarily due to a reduction in our reserve for uncertain tax positions as a result of the completion of an Internal Revenue Service examination in the second quarter of 2009 for the tax years 2005 through 2007 as well as the adoption of a new transfer pricing policy for our European business operations. Consistent with our lower year to date tax rate, we anticipate our effective tax rate for the full year 2009 will be less than our effective tax rate for the full year 2008.

Net Income: Net income for the first three quarters of 2009 was \$3.2 million, or \$0.50 diluted income per common share, compared to net income of \$5.0 million, or \$0.78 diluted income per common share in the same period of 2008. The net income decline of \$1.8 million is attributable to the net sales, gross profit, expense and tax rate changes discussed above.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES****Summary**

We ended the third quarter of 2009 with cash and cash equivalents of \$3.5 million as compared to \$4.3 million in the same period in 2008 and \$13.7 million as of the end of fourth quarter of 2008. In recent years, we have funded working capital requirements, capital expenditures, and acquisitions principally with cash generated from operations. In addition, we require working capital to support fluctuating accounts receivable and inventory levels caused by our seasonal business cycle. Working capital requirements are generally the lowest in the first quarter and the highest during the third quarter. We have not had outstanding borrowings against our credit line at a period end since the third quarter of 2005. We believe that our existing credit facility and anticipated future cash flows from operations will be sufficient to satisfy our working capital needs for the foreseeable future.

Operating Activities: Cash used in operating activities was \$3.4 million for the first three quarters of 2009 compared with cash provided by operating activities of \$1.5 million during the same period of 2008. The decline in operating cash flows was primarily related to an increase in our inventories and accounts receivable, partially offset by an increase in accounts payable.

Investing Activities: Cash used in investing activities was \$5.1 million for the first three quarters of 2009 compared with \$4.7 million during the same period of 2008. The increase in cash used in investing activities was primarily attributable to capital expenditures of \$4.7 million which included \$2.6 million related to racking, computer systems and other build-out costs in our new Indianapolis distribution center in the first half of 2009. In the same period of 2008, we paid \$3.2 million to acquire inventories and operations from our former European distributor to establish our new European subsidiary.

Financing Activities: Cash used in financing activities was \$1.9 million for the first three quarters of 2009 compared with \$7.7 million during the same period of 2008. A one-time, special dividend of \$1.00 per share totaling \$6.3 million was paid in March 2008. A total of \$8.5 million was paid in dividends during the first three quarters of 2008. The lower dividend payments in the first three quarters of 2009 were partially offset by lower proceeds from the exercise of stock options on lower option activity during 2009 due to the current market price of our stock.

A summary of our contractual cash obligations at September 26, 2009 is as follows:

<i>(in thousands)</i>	Contractual Obligations	Total	Payments due by year:					
			Remaining in 2009	2010	2011	2012	2013	Thereafter
	Operating leases (1)	\$ 18,636	\$ 627	\$ 2,317	\$ 2,106	\$ 2,129	\$ 2,151	\$ 9,306

(1) See Part I, Item 2 Properties in our Annual Report on Form 10-K for the year ended December 31, 2008 for a description of our leased facilities.

At September 26, 2009 and September 27, 2008, our pension plan had accumulated benefit obligations in excess of the respective plan assets and accrued pension liabilities. These obligations in excess of plan assets and accrued pension liabilities have resulted in cumulative direct charges to shareholders' equity (accumulated other comprehensive

loss) net of tax of \$3.6 million and \$1.0 million as of September 26, 2009 and September 27, 2008, respectively. We contributed \$0.6 million to our defined benefit pension plan during the first three quarters of 2009 and anticipate making no further contributions during the remainder of 2009.

From time to time we enter into purchase commitments with our suppliers under customary purchase order terms. Any significant losses implicit in these contracts would be recognized in accordance with generally accepted accounting principles. At September 26, 2009, no such losses existed.

On March 9, 2009, we entered into a new line of credit agreement with Wells Fargo Bank, N.A., which expires June 30, 2012. This line of credit agreement represents a 3-year extension of our previous line of credit agreement with Wells Fargo Bank, N.A. No amounts were outstanding under this line at September 26, 2009 or at September 27, 2008 under the former credit agreement with Wells Fargo Bank, N.A.

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies and estimates are summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2008. There have been no significant changes in these critical accounting policies since December 31, 2008. Some of our accounting policies require us to exercise significant judgment in selecting the appropriate assumptions for calculating financial estimates. Such judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, known trends in our industry, terms of existing contracts and other information from outside sources, as appropriate. Actual results could differ from these estimates.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our disclosures regarding market risk since December 31, 2008. See also Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2008 for further sensitivity analysis regarding our market risk related to interest rates, pension liability and foreign currencies.

ITEM 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. In accordance with Rule 13a-15 of the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q, our management evaluated, with the participation of our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act). Based upon their evaluation of these disclosure controls and procedures, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of the date of such evaluation in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to management, including our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we become involved in ordinary or routine legal and regulatory proceedings incidental to our business. When a loss is deemed probable, a reasonable estimate is recorded in our financial statements.

ITEM 1A. Risk Factors

Other than the modification to the risk factors set forth below, there has not been a material change to the risk factors as set forth in our Annual Report on Form 10-K for the year ended December 31, 2008.

Sales to the U.S. military, which are becoming an increasingly significant portion of our net sales, may not continue at current levels.

Our ability to continue to generate sales growth in our government channel is partially dependent upon the current U.S. presidential administration's policies regarding troop deployments in various global regions requiring our specialized footwear. Given that delivery orders can be sporadic, we may incur fixed costs associated with this operation even if the orders do not support such levels of fixed costs. If such orders do not continue at current levels, our earnings growth and results of operations would be negatively impacted. In addition, we sell our products through the Army & Air Force Exchange Service (AAFES) and other aftermarket channels. If our products do not continue to meet specifications or other requirements such as domestic content and favorable pricing, then those future sales volumes or gross margins may be negatively impacted.

Table of Contents

For all of our distribution channels, including domestic and international retailers, the current decline in consumer spending due to unfavorable economic and consumer credit conditions has created an environment of increasing price discounts which will likely continue to negatively impact our future product revenues, gross margins and earnings.

Our success in generating sales of our products to consumers depends upon a number of factors. These factors include economic conditions and factors such as employment levels, general business conditions, consumer confidence, prevailing interest rates and changes in tax laws. Under such conditions we may need to offer our domestic and international retailers and, in turn, consumers, increasing product discounts in order to generate sales of our products. If we are forced to offer increasing discounts on our products, our margins and our results of operations will be negatively impacted.

The current slow-down of consumer spending is negatively impacting our domestic and international retailers, which impacts their financial operations and their access to capital to fund growth, which increases and concentrates our credit risk and puts our retail sales channel volumes at risk.

The contraction in consumer spending and the tightening of the credit markets has created an unfavorable business environment for our retailers, especially the retailers who use debt to finance their inventory purchases and other operating capital. During the first quarter of 2009, two of our significant retailers filed for Chapter 11 bankruptcy proceedings. There is risk that the current retail environment could create unfavorable outcomes for additional domestic and foreign retailers and such outcomes could have a material adverse impact on our future results of operations.

Table of Contents

ITEM 6. Exhibits

The following exhibits are filed herewith and this list is intended to constitute the exhibit index:

- (31.1) Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
- (31.2) Certification of Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
- (32.1) Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- (32.2) Certification of the Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

-17-

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LACROSSE FOOTWEAR, INC.

(Registrant)

Date: October 27, 2009

By: /s/ Joseph P. Schneider
Joseph P. Schneider
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 27, 2009

By: /s/ David P. Carlson
David P. Carlson
Executive Vice President and Chief
Financial Officer (Principal Financial
and Accounting Officer)

-18-