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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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: 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 OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (310) 318-3100

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Class A Common Stock, $0.001 par value	New York Stock Exchange

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 the Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant based upon the closing sales price of its Class A Common Stock on March 25, 2002 on the New York Stock Exchange was approximately $341 million.

The number of shares of Class A Common Stock outstanding as of March 25, 2002 was 15,667,855.

The number of shares of Class B Common Stock outstanding as of March 25, 2002 was 21,246,777.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement issued in connection with the 2002 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III.

SKECHERS U.S.A., INC.
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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PART I

ITEM 1. BUSINESS

Certain information contained in this report constitutes forward-looking statements which involve risks and uncertainties including, but not limited to, information with regard to our plans to increase the number of retail locations and styles of footwear, the maintenance of customer accounts and expansion of business with such accounts, the successful implementation of our strategies, future growth and growth rates and future increases in net sales, expenses, capital expenditures and net earnings. The words "believes," "anticipates," "plans," "expects," "endeavors," "may," "will," "intends," "estimates," and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties, and our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this Report.

GENERAL

We design and market a collection of contemporary footwear for men, women and children under the Skechers brand, one of the most recognized names in the footwear industry. Our footwear reflects a combination of style, quality and value that appeals to a broad range of customers. Our shoes are sold through a wide range of department stores and leading specialty stores, a growing network of our own retail stores and our e-commerce website. Our objective is to continue to profitably grow our domestic operations, while leveraging our brand name to expand internationally.

We seek to offer consumers a collection of fashionable footwear that satisfies their casual, active and dress footwear needs. Our product line currently consists of over 1,500 active styles that are organized in seven distinct collections. Our core customer is a style-conscious consumer between the ages of 12 and 25 who is attracted to our youthful brand image and fashion forward designs. Over the last several years, we have introduced and expanded several footwear lines that have broadened our customer base. These shoes combine styling themes found elsewhere in our product line with colors and materials that reflect a playful image appropriate for children. We have also recently introduced or expanded several other lines such as Skechers Collection and Skechers by Michelle K that appeal to young adults interested in sophisticated fashions for the workplace and social occasions.

We believe that a well-recognized brand is an important element for success in the footwear business. We have aggressively promoted the Skechers brand through a comprehensive marketing campaign. This ongoing program has included endorsements from celebrities such as Britney Spears, Rick Fox, Robert Downey, Jr., Matt Dillon and Rob Lowe, print advertisements in publications such as GQ, Vogue and Seventeen and commercials aired on major networks and leading cable channels such as MTV, ESPN and Nickelodeon. We believe that this campaign, which is image oriented rather than product specific, has resulted in a high level of recognition of the Skechers brand across a variety of footwear categories.

Product Lines

In December 1992, we introduced our first Skechers-branded line called Skechers Sport Utility Footwear. Since that time, we have expanded our product offerings and grown our net sales while substantially increasing the breadth and penetration of our account base. Each of our product lines benefits from the umbrella of the Skechers brand, which is recognized for contemporary and progressive styling, quality, comfort, and affordability. To promote innovation and brand relevance, we manage our product lines separately by utilizing dedicated design and marketing teams. Our product lines share back office services in order to limit our operating expenses and fully utilize our management's vast experience in the footwear industry.

Skechers USA. Our Skechers USA category for men and women includes six types of footwear: (i) Casuals, (ii) Utility, (iii) Steel Toe, (iv) Classics, (v) Outdoor, and (vi) Comfort (for men only).

- The Casuals category includes "Black & Brown" boots and shoes that generally have a rugged, less refined design - some with industrial-inspired fashion features. This category is defined by the heavy-lugged outsole and value-oriented materials employed in the uppers. We design and price this category to appeal primarily to young persons with broad acceptance across age groups. Suggested retail price points range from $45.00 to $70.00 for this category.

- Our Utility styles consist of a single category of boots that are designed to meet the functional demands of a work boot but are marketed as casual footwear. The Utility outsoles are designed to be durable and wearable with Goodyear welted and hardened rubber outsoles. Uppers are constructed of thicker, better grades of heavily oiled leathers, and may include water-resistant or waterproof construction and/or materials,

padded collars and Thermolite insulation. Styles include logger boots and demi-boots, engineer boots, motorcycle boots and six- and eight-eyelet work boots. Suggested retail price points range from $80.00 to $100.00 for this category.

- Steel Toe, an expanded category within Skechers USA, includes boots, shoes and athletic sneakers with steel toe construction. This category is designed for men and women whose jobs have certain safety requirements. Suggested retail price points range from $45.00 to $100.00 for this category.

- The Classics category of boots and shoes employ softer outsoles, which are often constructed of polyvinyl carbon ("PVC"). The more refined design of this footwear utilizes better grades of leather and linings. Designs are sportier than the Casuals category and feature oxfords, wingtips, monk straps, demi-boots and boots. Suggested retail price points range from $55.00 to $75.00 for this category.

- Our Outdoor styles primarily consist of hiker-influenced constructions that include boots and shoes. While this category includes many comfort and technical performance features, we market it primarily on the basis of style and comfort rather than on performance. However, many of the technical performance features in the Outdoor category contribute to the level of comfort this footwear provides. Outsoles generally consist of molded and contoured hardened rubber. Many designs may include gussetted tongues to prevent penetration of water and debris, cushioned mid-soles, motion control devices such as heel cups, water-resistant or water-proof construction and materials and heavier, more durable hardware such as metal D-rings instead of eyelets. Uppers are generally constructed of heavily oiled nubuck and full-grain leathers. Suggested retail price points range from $55.00 to $100.00 for this category.

- Launched in stores in Fall 2001, Skechers Comfort is the latest category of Skechers USA. With comfortable outsoles, more cushioned insoles and leather uppers, the line of stylish casuals is for trend-savvy men of all ages who want more edge in their black and brown footwear. Skechers Comfort is intended to be available in many of the same stores that carry Skechers USA as well as additional mid-tier and better department stores. Suggested retail price points range from $55.00 to $75.00 for this category.

Skechers Sport. Our Skechers Sport footwear for men and women includes (i) Joggers, Trail runners, Sport hikers, "Terrainers" (multi-functional shoes inspired by cross-trainers), (ii) Court, and (iii) "Street" active sneakers. We distinguish our Skechers Sport category by its technical performance-inspired looks; however, generally we do not promote the technical performance features of these shoes.

- Our Jogger, Trail runner, Sport hiker and Terrainer designs are lightweight constructions that include cushioned heels, polyurethane midsoles, phylon and other synthetic outsoles, and white leather or synthetic uppers such as durabuck, cordura and nylon mesh. Careful attention is devoted to the design, pattern and construction of the outsoles, which vary greatly depending on the intended use. This category features earth tones and athletic-inspired hues with popular colors in addition to the traditional athletic white. The Jogger, Trail runner, Sport hiker and Terrainer styles are marketed through athletic footwear specialty retailers as well as basic existing accounts. Suggested retail price points range from $40 to $80 for this category.

- The Court category is inspired from classic court shoes and includes technical features, but is not meant to be a performance shoe. The court shoes feature lightweight constructions that include polyurethane and phylon midsoles, rubber low-profile outsoles, and some with heel airbag inserts for additional comfort and performance. The uppers are mostly mid-cut with some low tops, and constructed with better quality smooth, full-grain and tumbled leathers, typically in white. The court styles

are marketed through athletic footwear specialty retailers as well as basic existing accounts. Suggested retail price points range from $40.00 to $70.00 for this category.

- Street active sneakers are everyday, everywhere casual shoes for females of all ages. Active sneakers are intended to be retailed through specialty casual shoe stores and department stores. Suggested retail price points range from $40.00 to $65.00 for this category.

Skechers Collection. The Skechers Collection line features stylish dress casual, dress and EuroSport shoes for the fashion-forward young male consumer. With some basic "essential" styles, this category is primarily comprised of more sophisticated designs influenced, in part, by prevailing trends in Italy and other European countries. As such, this footwear is more likely than other categories to be sourced from Italy and Portugal. The dress and dress casuals include classic tailored and fashion-forward square, rounder and pointed lasts in a variety of styles, such as bicycle toes, monk straps, wingtips, oxfords, cap toes, demi-boots and boots. The outsoles project a sleeker profile and can be either man-made or leather. The uppers are in high-quality leathers including glossy, "box," and aniline. Inspired by the latest in European fashion, EuroSport blends classic dress casual styling with sport to create a versatile and comfortable casual shoe. First delivered in 2001, EuroSport is marked by details, high-quality leathers and suede in multiple colorations, and sport-inspired rubber outsoles. We have promoted Skechers Collection with advertising campaigns featuring Rick Fox, Robert Downey, Jr., Matt Dillon and Robe Lowe. Suggested retail price points range from $65.00 to $155.00 for this category.

Skechers Kids. The Skechers Kids line features a range of products including boots, shoes and sneakers. Comprised primarily of shoes that are designed like their adult counterparts but in "takedown" versions, the line offers the younger set the same popular styles as their older siblings and schoolmates. This "takedown" strategy maintains the product integrity with premium leathers, hardware and outsoles without the attendant costs involved in designing and developing new products. In addition, we adapt current fashion from our men's and women's lines by modifying designs and choosing colors and materials that are more suitable to the playful image we have established in the children's footwear market. Skechers Kids includes variations on Skechers Sport, Skechers USA and Skechers Collection adult shoes. Unique to Skechers Kids is S-Lights, a line of lighted footwear combining sequencing patterns and lights in the outsole and other areas of the shoes. Our children's footwear is offered at retail prices ranging from $20.00 to $50.00.

Somethin' Else from Skechers. Launched in stores in Fall 2001, Somethin' Else from Skechers is a junior line that features an array of stylish shoes, boots and sandals. We target to 12- to 25-year old style conscious females, and Somethin' Else from Skechers is focused on current styling with numerous details and various silhouettes - including wedges and sculpted wedges. Many of the boots and shoes are made from more affordable materials such as man-made leather. Somethin' Else from Skechers is designed to be a complementary line for juniors who already wear Skechers USA and Skechers Sport styles. Suggested retail price points range from $20.00 to $70.00 for this category.

Skechers by Michelle K. The Skechers by Michelle K line, also launched in stores in Fall 2001, is a designer line for trend-savvy young women between the ages of 18 and 34. A signature line from our head designer, Michelle Kelchak, the category is comprised of high fashion boots, shoes and sandals. Noticing a hole in the market for affordable high-fashion footwear, Michelle and her team of designers have created a line reflective of the latest European, Asian and American trends at a reasonable price and of the highest quality. Most styles are crafted in Italy, Portugal and Spain, with others made in Brazil. Skechers by Michelle K is marked by high-grade leathers, fine detailing and design and flattering silhouettes, including sculpted heels and lower kitten heels. Suggested retail price points range from $60.00 to $250.00 for this category.

4 Wheelers by Skechers. Launched in stores in Fall 2001, 4 Wheelers by Skechers is a line of technical fashion roller skates for men, women and children. The skates incorporate our most popular sneaker uppers, including the Energy and Energy II, on quality aluminum and nylon chassis and polyurethane wheels. The uppers are in cool color combinations and feature fashion details such as glimmer trim for some women and girls' styles. Technical features include: full precision ABEC-1, 3 and 5 bearings, unique heel brake for easy control, durable chassis, controllable steering, and reinforced upper. Designed for the entire family, 4 Wheelers by Skechers are street skates that can be worn indoors, and are ideal for fun and fitness. We have promoted 4 Wheelers by Skechers with an advertising campaign featuring Britney Spears. Suggested retail price points for adults range from $80.00 to $100.00, and for children from $60.00 to $75.00.

In addition to the previously mentioned lines, we offer seasonal sandalized footwear, which features open-toe and open-side constructions consistent with our offerings in the Skechers USA, Skechers Sport and Skechers Collection categories of footwear. Such footwear includes fisherman's sandals, shower sandals, beach sandals, slides, comfort-oriented land sandals and technically inspired water sport sandals. Sandalized footwear includes both leather and synthetic constructions and may feature suede footbeds with form-fitting midsoles. We typically deliver our sandalized footwear to retailers from February to August. Suggested retail price points range from $20.00 to $60.00 for this category.

PRODUCT DESIGN AND DEVELOPMENT

Our principal goal in product design is to generate new and exciting footwear with contemporary and progressive styles and comfort enhancing performance features. All of our footwear is designed with an active, youthful lifestyle in mind. We design most

new styles to be fashionable and marketable to the 12 to 25 year old consumer, while substantially all of our lines appeal to the broader range of 5 to 40 year old consumers. While many of our shoes have performance features, we generally do not position our shoes in the marketplace as technical performance shoes.

We believe that our product success is related in a large part to our ability to recognize trends in the footwear markets and to design products that anticipate and accommodate consumers' ever-evolving preferences. We strive to analyze, interpret and translate current and emerging lifestyle trends. Lifestyle trend information is compiled by our designers through various methods designed to monitor changes in culture and society, including (1) review and analysis of modern music, television, cinema, clothing, alternative sports and other trend-setting media, (2) travel to domestic and international fashion markets to identify and confirm current trends, (3) consultation with our retail customers for information on current retail selling trends, (4) participation in major footwear trade shows to stay abreast of popular brands, fashions and styles and (5) subscription to various fashion and color information services. In addition, a key component of our design philosophy is to continually reinterpret our successful styles in the Skechers image.

The footwear design process typically begins about nine months before the start of a season. Our products are designed and developed by our in-house staff. To promote innovation and brand relevance, we utilize dedicated design teams that focus on each of the men's, women's and children's categories, and report to our senior design executives. In addition, we utilize outside design firms on an item-specific basis to supplement our design efforts. The design process is extremely collaborative; members of the design staff meet weekly with the heads of retail and merchandising, sales, production and sourcing to further refine our products to meet the particular needs of our markets.

After a design team arrives at a consensus regarding the fashion themes for the coming season, the designers then translate these themes into our products. These interpretations include variations in product color, material structure and decoration, which are arrived at after close consultation with our

production department. Prototype blueprints and specifications are created and forwarded to our prototype manufacturers located in Taiwan, which then forward design prototypes back to our domestic design team. New design concepts are often also reviewed by our major retail customers. Customer input not only allows us to measure consumer reaction to the latest designs, but also affords us an opportunity to foster deeper and more collaborative relationships with our customers. Our design teams can easily and quickly modify and refine a design based on customer input.

We occasionally order limited production runs which may initially be tested in our concept stores. By working closely with store personnel, we obtain customer feedback that often influences product design and development. We believe that sales in our concept stores can help forecast sales in national retail stores. We strive to determine within seven to 14 days after initial introduction of a product whether there is substantial demand for the style, thereby aiding us in our sourcing decisions. Styles that have substantial consumer appeal are highlighted in upcoming collections or offered as part of our periodic style offerings. The ability to initially test our products allows us to discontinue less popular styles after only a limited production run which affords us an indicator of future production and a hedge to fashion risks. Also, we strive to monitor five- and 10-week trailing trends of orders of our retail account base in order to manage future production of styles that are increasing or decreasing in popularity. Generally, the production process takes approximately six months from design concept to commercialization.

SOURCING

Factories. Our products are produced by independent contract manufacturers primarily located in China and, to a lesser extent, in Italy, the Philippines, Brazil and various other countries. Substantially all of our products are manufactured in China. We do not own or operate any manufacturing facilities. We believe the use of independent manufacturers increases our production flexibility and capacity while at the same time substantially reduces capital expenditures and avoids the costs of managing a large production work force.

We seek to use, whenever possible, manufacturers that have previously produced our footwear, which we believe enhances continuity and quality while controlling production costs. We attempt to monitor our selection of independent factories to ensure that no one manufacturer is responsible for a disproportionate amount of our merchandise. We source product for styles that account for a significant percentage of our net sales from at least four different manufacturers. During 2001, we had four manufacturers that accounted for approximately 51.9% of total purchases. No one manufacturer accounted for 20.0% or more of our total purchases for this period. To date, we have not experienced difficulty in obtaining manufacturing services.

We maintain an in-stock position for selected styles of footwear in order to minimize the time necessary to fill customer orders. In order to maintain an in-stock position, we place orders for selected footwear with our manufacturers prior to the time we receive customers' orders for such footwear. In order to reduce the risk of overstocking, we seek to assess demand for our products by

soliciting input from our customers and monitoring retail sell-through. In addition, we analyze historical and current sales and market data to develop internal product quantity forecasts which helps reduce inventory risks.

We finance our production activities in part through the use of interest-bearing open purchase arrangements with certain of our Asian manufacturers. These facilities currently bear interest at a rate between 0.5% and 1.5% for 30 to 60 days financing, depending on the factory. We believe that the use of these arrangements affords us additional liquidity and flexibility. While we have long-standing relationships with many of our manufacturers and believe our relationships to be good, there are no long-term contracts between us and any of our manufacturers.

Production Oversight. To safeguard product quality and consistency, we oversee the key aspects of production from initial prototype manufacture through initial production runs to final manufacture. Monitoring is performed domestically by our in-house production department and in Asia through an approximately 130-person staff working from our offices in China and Taiwan. We believe that our Asian presence allows us to negotiate supplier and manufacturer arrangements more effectively, decrease product turnaround time, and ensure timely delivery of finished footwear. In addition, we require our manufacturers to certify that neither convict, forced, indentured labor (as defined under U.S. law) nor child labor (as defined by the manufacturer's country) is used in the production process, that compensation will be paid according to local law and that the factory is in compliance with local safety regulations.

Quality Control. We believe that quality control is an important and effective means of maintaining the quality and reputation of our products. Our quality control program is designed to ensure that finished goods not only meet our established design specifications, but also that all goods bearing our trademarks meet our standards for quality. Quality control personnel perform an array of inspection procedures at various stages of the production process, including examination and testing of prototypes of key raw materials prior to manufacture, samples and materials at various stages of production and final products prior to shipment. Our employees are on-site at each of our major manufacturers to oversee key phases of production. In addition, unannounced visits to the manufacturing sites, to further monitor compliance with our manufacturing specifications, are made by our employees and agents.

ADVERTISING AND MARKETING

Our advertising and marketing focus is to maintain and enhance recognition of the Skechers brand name as a casual, active youthful brand that stands for quality, comfort and design innovation. Senior management is directly involved in shaping our image and the conception, development and implementation of our advertising and marketing activities. We have and continue to increase our advertising budget consistent with projected sales, which has included such avenues as magazines, television, trade shows, billboards, and buses. We endeavor to spend approximately 8% to 10% of annual net sales in the marketing of Skechers footwear through advertising, promotions, public relations, trade shows and other marketing efforts.

Advertising

Substantially all of our advertising is conceived and designed by our in-house staff. By retaining our advertising functions in-house, we believe that we are able to maintain a greater degree of control over both the creative process and the integrity of the Skechers brand image, while realizing substantial cost savings compared to using outside agencies.

We believe that our success to date is due in large part to our advertising strategies and methods. Our in-house advertising team has developed a comprehensive program to promote the Skechers brand name through lifestyle and image advertising. While all advertisements feature our footwear, our advertisements generally seek to build and increase brand awareness by linking the Skechers brand to youthful, contemporary lifestyles and attitudes rather than to market a particular footwear product. We have made a conscious effort to avoid the association of the Skechers name with any single category of shoe to provide merchandise flexibility and to aid the ability to take the brand and product design in the direction of evolving footwear fashions and consumer preferences.

We use a variety of media for our national advertising. Print efforts are represented by one and two page ads displayed in popular fashion and lifestyle consumer publications that appeal to our target customer group, such as Spin, Details, Seventeen, GQ, Vibe, Rolling Stone, Vogue and many others. Our progressive television advertisements are primarily produced in-house and air frequently on top television shows on major networks and the cable channels. Different advertisements are created for each of the 5 to 11, 12 to 24 and 25 to 35 year old male and female consumer groups. Our in-house media buyer strategically selects during which program and in which geographic area certain

of our commercials will air in order to reach the appropriate target audience.

Endorsements. We believe that the high profile image and diverse appeal of each of our celebrity endorsements will help the Skechers brand reach new markets. In 2000, we signed our first celebrity endorsement agreements, including signing singer Britney Spears for an international (worldwide excluding the United States) print media campaign through June 2002. We expanded upon our

successful relationship with Britney Spears in 2002 by signing a three-year worldwide licensing agreement for her to promote our collection of Britney Spears 4 Wheelers, which is fashioned after our 4 Wheelers by Skechers line of technical fashion roller skates. We also recently signed professional basketball player and actor Rick Fox and actor Robert Downey, Jr. to separate limited term worldwide print media campaigns. We previously had similar relationships with actors Matt Dillon and Rob Lowe. From time to time, we may sign other celebrities to endorse our brand name and image and to strategically focus marketing of our products among specific consumer groups.

Marketing and Promotions. By applying creative sales techniques to a broad spectrum of mediums, the marketing and promotions team develops Skechers brand name recognition, serving as a catalyst for increased product sales. Skechers promotional strategies have encompassed in-store specials, concert promotions, product tie-ins and giveaways, and collaborations with national retailers and radio stations. Our imaginative promotions draw customers to Skechers retail stores and to our retail partners' locations, which results in an expanded customer base and strong product sell-throughs.

Public Relations. During 2001, we received notable press coverage in print publications, including a Forbes cover story and being ranked ninth in BusinessWeek's Top 100 Growth Companies. In addition, we were noted in Money, Vogue, Movieline, Entertainment Weekly, Elle and Sportswear International, among others. We have repeatedly received recognition in the footwear industry for our exciting and innovative products, including Excellence in Children's Design Award by Footwear Plus magazine. Skechers was awarded the 2001 "Corporate Vendor of the Year" and "Children's Vendor of the Year" awards from Shoe Carnival. The Shoe Carnival awards recognize brands that have the largest sales increases and profit margin in the shoe chains stores throughout the retail fiscal year. With our strategy tied to promoting the newest styles produced by our design and development teams, our products are often featured in fashion and pop culture magazines, and in a select group of films and popular television shows. For example, our shoes have been prominently displayed and referenced on The Today Show, Oprah, Good Morning America, Dharma & Greg and Malcolm in the Middle.

Merchandising

Our in-house display merchandising department supports retailers and distributors by developing point-of-purchase advertising to further promote our products in our wholesale customers' stores and to leverage recognition of the Skechers brand name at the retail level. Our field service representatives coordinate with our sales department to ensure better sell-through at the retail level. Our representatives communicate with and visit our wholesale customers on a regular basis to aid in the proper visual display of our merchandise and to distribute and display such point-of-purchase items as signage, packaging, displays, counter cards, banners and other visual merchandising displays. These materials mirror the look and feel of our national print advertising in order to reinforce brand image at the point-of-purchase. We believe these efforts help stimulate impulse sales and repeat purchases.

Our merchandise personnel also work closely with our wholesale customers to ensure the optimal exposure of our products through our shop-in-shops, which are exclusive selling areas within stores that offer our products and incorporate Skechers signage and customized fixture designs. The shop-in-shop concept enhances brand recognition and ensures the consistent presentation of our products in our wholesale customers' stores. As of December 31, 2001, our

wholesale customers' stores included more than 300 shop-in-shops. We plan to add additional shop-in-shops during 2002.

Trade Shows. To best showcase our diverse products to footwear buyers across the nation, we exhibited at 23 trade shows during 2001. Our dynamic, state-of-the-art trade show exhibits, which are designed by our in-house architect and feature our latest product offerings, are specially planned and built to accommodate each trade show and are enhanced with lifestyle images that capture the image of our brand. By investing in innovative displays and individual rooms showcasing each line, our sales force can present a sales plan for each line and buyers are able to truly understand the breadth and depth of our offerings, optimizing commitments and sales at the retail level. Our innovative exhibits continually win awards, including Best Booth Design at the World Shoe Association, February 2001.

Internet. We also promote our brand image through our website at www.skechers.com to customers who directly access the Internet. This website currently enables us to present information on our products and store locations to consumers. The website is interactive, affording customers the ability to directly order products on the Internet and to allow us to receive and respond directly to customer feedback. Our website is intended to enhance the Skechers brand without the associated costs of advertising. Our website provides fashion information, provides a mechanism for customer feedback, promotes customer loyalty and further enhances the Skechers brand image through interactive content, photos, interviews and information on Skechers-sponsored events.

DOMESTIC SALES AND DISTRIBUTION CHANNELS

Our products are sold in the United States through three primary distribution channels: to a network of wholesale accounts, in our own retail stores and, to a lesser extent, through electronic commerce on our interactive website. Each of these channels and the three distinct categories of our retail stores - concept stores, factory outlet stores and warehouse outlet stores - serves an integral function in the domestic distribution of our products.

Wholesale Distribution

As of December 31, 2001, we distributed our footwear to over 3,500 wholesale accounts in the United States. We believe that our broad product line enables us to appeal to a variety of wholesale accounts, many of whom may operate stores within the same mall or other retail locations, because retailers can select those styles of ours that best satisfy the fashion, function and price criteria of their clients. Management has implemented a strategy of controlling the growth of our wholesale distribution channels. Our strategy is to continue offering our accounts the highest level of customer service so that our products will be more fully represented in existing retail locations and new locations within each account.

We have approximately 100 sales and 15 field service representatives to service our wholesale accounts. In an effort to provide knowledgeable and personalized service to our wholesale accounts, the sales force is segregated into men's, women's and children's divisions. The men's and women's divisions have a combined six regional sales managers and the children's division has three dedicated regional sales managers. Additionally, Skechers by Michelle K, Skechers Collections, and 4 Wheelers by Skechers are each headed by its own national sales manager. Each of these sales managers reports to our Executive Vice President, Domestic U.S. Sales, who has over 20 years of experience in the branded consumer products industry. Each of the sales staff is compensated on a salary plus commission basis with none of the representatives selling competitive products. Senior management is actively involved in selling to and maintaining relationships with Skechers' major retail accounts.

We believe that we have developed a loyal customer base of wholesale accounts through a heightened level of customer service. We believe that our close relationships with these accounts help us to maximize their retail

sell-through, maintained margins and inventory turns which in turn minimizes our inventory markdowns and customer returns and allowances. Our field service representatives work with our wholesale accounts to ensure that our merchandise and point-of-purchase marketing materials are properly presented. Sales executives and merchandise personnel work closely with accounts to ensure the appropriate styles are purchased for specific accounts and for specific stores within those accounts as well as ensure that appropriate inventory levels are carried at each store. Such information is then utilized to help develop sales projections and determine the product needs of wholesale accounts. The value added services we provide our wholesale customers help us maintain strong relationships with our existing wholesale customers and attract potential new wholesale customers.

Retail Stores

We pursue our retail store strategy through our three integrated retail formats: the concept store, the factory outlet and the warehouse outlet store. Our three store format enables us to promote the full Skechers line in an attractive environment, appeal to a broad group of customers that are segmented by price points and manage inventory in an efficient and brand sensitive manner. In addition, most of our retail stores are profitable and have a positive effect on our operating results. As of December 31, 2001, we operated 29 concept stores, 29 factory outlet stores and 20 warehouse outlet stores in the United States. We plan to open between 10 to 15 retail stores during 2002.

- Concept Stores. Our concept stores are located at either marquee street locations or in major shopping malls in large metropolitan cities. Our concept stores serve a threefold purpose in our operating strategy. First, concept stores serve as a showcase for a wide range of our product offerings for the current season, providing the customer with the entire product story. The concept stores feature modern music and lighting and present an open floor design to allow customers to readily view the merchandise on display. In contrast, we estimate that our average retail customer carries no more than 5.0% of the complete Skechers line. Second, retail locations are generally chosen to generate maximum marketing value for the Skechers brand name through signage, store front presentation and interior design. These locations include concept stores on 34th Street in New York City and in Santa Monica's Third Street Promenade. The stores are typically designed to create a distinctive Skechers look and feel and enhance customer association of the Skechers brand name with current youthful lifestyle trends and styles. Third, the concept stores serve as marketing and product testing venues that provide rapid product feedback from customers. We believe that product sell-through information

derived from our concept stores enables our sales, merchandising and production staff to respond to market changes and new product introductions. Such responses serve to augment sales and limit our inventory markdowns and customer returns and allowances. We strive to adjust our product and sales strategy based upon seven to 14 days of retail sales information.

The prototypical Skechers concept store is approximately 2,500 square feet although in certain selected markets we have opened concept stores as large as 7,000 square feet or as small as 1,100 square feet. When deciding where to open concept stores, we identify top geographic markets in the larger metropolitan cities in the United States. When selecting a specific site, we evaluate the proposed sites' traffic pattern, co-tenancies, average sales per square foot achieved by neighboring concept stores, lease economics and other factors considered important within the specific location. If we are considering opening a concept store in a shopping mall, our strategy is to obtain space as centrally located as possible in the mall where we expect foot traffic to be most concentrated. We

believe that the strength of the Skechers brand name has enabled us to negotiate more favorable terms with shopping malls that want us to open up concept stores to attract customer traffic to these malls. We opened two new concept stores during 2000 and five new concept stores during 2001.

- Factory Outlet Stores. Our factory outlet stores are generally located in manufacturers' outlet centers throughout the United States. Our factory outlet stores provide opportunities for us to sell discontinued and excess merchandise, thereby reducing the need to sell such merchandise to discounters at excessively low prices, which could otherwise compromise the Skechers brand image. Skechers factory outlet stores range in size from approximately 1,900 to 6,000 square feet. Inventory in these stores is supplemented by certain first-line styles sold at full retail price points generally of $60.00 or lower. We opened five new factory outlet stores during 2000 and 11 new factory outlet stores during 2001.

- Warehouse Outlet Stores. Our free-standing warehouse outlet stores, which are located throughout the United States, enable us to liquidate excess merchandise, discontinued lines and odd-size inventory in a cost-efficient manner. Skechers warehouse outlet stores range in size from approximately 5,600 to 14,800 square feet. Our warehouse outlet stores enable us to sell discontinued and excess merchandise that would otherwise typically be sold to discounters at excessively low prices, thus compromising the Skechers brand image. We seek to open our warehouse outlet stores in areas that are in close proximity to our other retail stores in order to facilitate the timely transfer of inventory that we want to liquidate as soon as practicable. We opened three new warehouse outlet stores during 2000 and 10 new warehouse outlet stores during 2001.

Electronic Commerce. Our electronic commerce sales represented less than 1.0% of total net sales for each of 2000 and 2001. Our website, www.skechers.com, is a virtual storefront that promotes the Skechers brand name. Designed as a customer center, our website showcases our products in an easy-to-navigate format, allowing customers to see and purchase our footwear. This virtual store has become a successful additional retail distribution channel, has improved customer service and is a fun and entertaining alternative-shopping environment.

INTERNATIONAL OPERATIONS

We market our products in countries and territories throughout the world. We generate revenues from outside the United States from three principal sources: (1) sales of our footwear directly to foreign distributors who distribute such footwear to department stores and specialty retail stores in Europe, Asia, Latin America, South America and numerous other countries and territories, (2) in France, Germany and the United Kingdom, we sell footwear directly to department stores and specialty retail stores and through retail stores that we own and operate and (3) to a lesser extent, royalties from licensees who manufacture and distribute our products outside the United States.

We believe that international distribution of our products represents a significant opportunity to increase revenues and profits. Although we are in the early stages of our international expansion, our products are currently sold in more than 100 countries and territories around the world. We intend to further increase our share of the international footwear market by heightening our marketing presence in those countries through our international advertising campaigns, which are designed to establish Skechers as a global brand synonymous with casual shoes.

Europe

We have historically sold our footwear to selected wholesale customers in Europe through our foreign distributors. In 2001, we expanded our European operations and began to directly sell our footwear to certain wholesale accounts and retail stores in Europe in an effort to increase profit margins and more effectively market and promote the Skechers brand name. We organized Skechers U.S.A. Ltd. in the United Kingdom and Ireland and opened the subsidiary's headquarters in London to establish direct control over wholesale distribution, merchandising, and marketing of our products in these countries. We also organized Skechers U.S.A. SAS with its office in Paris, France and Skechers U.S.A. Deutschland GmbH with its office in Dietzenbach, Germany, with each of these subsidiaries formed to establish direct control over our products in their respective countries of organization. In 2001, we began to utilize a contract warehouse located in Belgium to distribute our footwear to our customers and retail stores in France, Germany and the United Kingdom.

Additionally, we are beginning to selectively open flagship retail stores internationally on our own or through joint ventures with local distributors. In the first three months of 2001, we opened our first European flagship retail stores on Oxford Street in London, at the Forum Les Halles in Paris and in the prestigious Centro Mall in Oberhausen, Germany. We intend to open additional wholly-owned flagship retail stores in the European Union (EU) countries and enter into agreements with distributors to operate flagship retail stores in non-EU countries.

Asia

In December 2001, we opened our first Asian flagship retail store in Kichijuoji, Japan by agreement with Japanese distributor Achilles Corporation. Achilles Corporation is responsible for the store's operations and selecting a broad collection of our products to sell to Japanese consumers. In order to maintain a globally consistent image, we provided architectural, graphic and visual guidance and materials for the design of the store, and we trained the local staff on our products and corporate culture. We intend to expand our international presence and global recognition of the Skechers brand name in Asia by continuing to sell our footwear to foreign distributors and opening flagship retail stores with distributors that have local market expertise.

LICENSING

We believe that selective licensing of the Skechers brand name to non-footwear-related manufacturers may broaden and enhance the Skechers brand image without requiring significant capital investments or additional incremental operating expenses by us. Our diverse group of products presents many potential licensing opportunities on terms with licensees that we believe will provide more effective manufacturing, distribution or marketing of products such as accessories, backpacks and children's clothing than could be achieved in-house; however, we intend to be selective in granting any use of the Skechers brand name for such licensed products. We believe that the strength of the Skechers brand name and the size of our business will enable us to attract premier licensing partners with a proven track record of brand sensitivity. We are also interested in exploring the possibility of licensing our other trademarks and trade names for use with non-footwear products that could enable us to successfully enter and compete in non-footwear markets that we would not be likely to succeed in using the Skechers brand name and without having to compromise the Skechers brand image. In addition, we periodically review potential international licensing arrangements for footwear in various geographical regions that present favorable business opportunities. We intend to maintain substantial control over the design, manufacturing specifications, advertising and distribution of any licensed products and to maintain a policy of evaluating any future licensing arrangements to ensure consistent representation of the Skechers image.

DISTRIBUTION

We believe that strong distribution support is a critical factor in our operations. Once manufactured, our products are packaged in shoe boxes bearing bar codes and are shipped either (1) to our approximately 1.4 million square feet of internally managed distribution center located in Ontario, California,

(2) to an approximately 130,000 square foot contract warehouse located in Gent, Belgium for distribution to our European customers and retail stores or (3) directly from the manufacturer to our other international customers. Upon receipt at the central distribution centers, merchandise is inspected and recorded in our management information system and packaged according to customers' orders for delivery. Merchandise is shipped to the customer by whatever means the customer requests, which is usually by common carrier. The central distribution centers have multi-access docks, enabling us to receive and ship simultaneously and to pack separate trailers for shipments to different customers at the same time. We have an electronic data interchange system, or EDI system, to which some of our larger customers are linked. This system allows these customers to automatically place orders with us, thereby eliminating the time involved in transmitting and inputting orders, and includes direct billing and shipping information.

The following table sets forth a summary of the facilities that comprise our Ontario distribution center:

ADDRESS	STATUS	SQUARE FOOTAGE
1661 South Vintage Avenue	Leased since November 1997	127,800
1777 South Vintage Avenue	Leased since November 1997	284,600
1670 Champagne Avenue	Owned since October 2000	263,700
4100 East Mission Blvd.	Leased since June 2001	763,300
		1,439,400(1)

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(1) Excludes 285,600 square feet located at 5725 East Jurupa Street that we leased in April 1998 and occupied until we subleased the facility in June 2001.

We believe that we have the capacity at our Ontario distribution center to increase our current operations to meet projected demand, and if we should ever need to expand our distribution facilities to allow for further growth, we believe there is presently enough space available in close proximity that leads us to believe leasing or purchasing additional property will not be a problem in the foreseeable future.

BACKLOG

We generally receive the bulk of our orders for each of the spring and fall seasons a minimum of three months prior to the date the products are shipped to customers. As of December 31, 2001, our backlog was $222.2 million, compared to $221.6 million as of December 31, 2000. While backlog orders are subject to cancellation by customers, we have not experienced significant cancellation of orders in the past and we expect that substantially all the orders will be shipped in 2002. However, for a variety of reasons, including the timing of shipments, product mix of customer orders and the amount of in-season orders, backlog may not be a reliable measure of future sales for any succeeding period.

INTELLECTUAL PROPERTY RIGHTS

We own and utilize a variety of trademarks, including the Skechers trademark. We have a significant number of both registrations and pending applications for our trademarks in the United States. In addition, we have trademark registrations and trademark applications in approximately 85 foreign countries. We also have design patents, and pending design and utility patent applications, in both the United States and various foreign countries. We continuously look to increase the number of our patents and trademarks, both

domestically and internationally, where necessary to protect valuable intellectual property. We regard our trademarks and other intellectual property as valuable assets and believe that they have significant value in the marketing of our products. We vigorously protect our trademarks against infringement, including through the use of cease and desist letters, administrative proceedings and lawsuits.

We rely on trademark, patent, copyright, trade secret protection, non-disclosure agreements and licensing arrangements to establish, protect and enforce intellectual property rights in our logos, tradenames and in the design of our products. In particular, we believe that our future success will largely depend on our ability to maintain and protect the Skechers trademark. Despite our efforts to safeguard and maintain our intellectual property rights, we cannot assure you that we will be successful in this regard. Furthermore, we cannot assure you that our trademarks, products and promotional materials or other intellectual property rights do not or will not violate the intellectual property rights of others, that our intellectual property would be upheld if challenged, or that we would, in such an event, not be prevented from using our trademarks or other intellectual property rights. Such claims, if proven, could materially and adversely affect our business, financial condition and results of operations. In addition, although any such claims may ultimately prove to be without merit, the necessary management attention to and legal costs associated with litigation or other resolution of future claims concerning trademarks and other intellectual property rights could materially and adversely affect our business, financial condition and results of operations. We have sued and have been sued by third parties for infringement of intellectual property. It is our opinion that none of these claims have materially impaired our ability to utilize our intellectual property rights.

The laws of certain foreign countries do not protect intellectual property rights to the same extent or in the same manner as do the laws of the United States. Although we continue to implement protective measures and intend to defend our intellectual property rights vigorously, these efforts may not be successful or the costs associated with protecting our rights in certain jurisdictions may be prohibitive. From time to time, we discover products in the marketplace that are counterfeit reproductions of our products or that

otherwise infringe upon intellectual property rights held by us. Actions taken by us to establish and protect our trademarks and other intellectual property rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violating trademarks and intellectual property rights. If we are unsuccessful in challenging a third party's products on the basis of infringement of our intellectual property rights, continued sales of such products by that or any other third party could adversely impact the Skechers brand, result in the shift of consumer preferences away from us and generally have a material adverse effect on our business, financial condition and results of operations.

COMPETITION

Competition in the footwear industry is intense. Although we believe that we do not compete directly with any single company with respect to its entire range of products, our products compete with other branded products within their product category as well as with private label products sold by retailers, including some of our customers. Our utility footwear and casual shoes compete with footwear offered by companies such as The Timberland Company, Dr. Martens, Kenneth Cole Productions, Steven Madden, Ltd. and Wolverine World Wide, Inc. Our athletic shoes compete with brands of athletic footwear offered by companies such as Nike, Inc., Reebok International Ltd., Adidas-Salomon AG and New Balance. Our children's shoes compete with brands of children's footwear offered by The Stride Rite Corporation. In varying degrees, depending on the product category involved, we compete on the basis of style, price, quality, comfort and brand name prestige and recognition, among other considerations. These and other competitors pose challenges to our market share in our major domestic markets and may make it more difficult to establish our products in Europe, Asia and

other international regions. We also compete with numerous manufacturers, importers and distributors of footwear for the limited shelf space available for the display of such products to the consumer. Moreover, the general availability of contract manufacturing capacity allows ease of access by new market entrants. Many of our competitors are larger, have achieved greater recognition for their brand names, have captured greater market share and/or have substantially greater financial, distribution, marketing and other resources than us. We cannot assure you that we will be able to compete successfully against present or future competitors or that competitive pressures faced by us will not have a material adverse effect on our business, financial condition and results of operations.

EMPLOYEES

As of February 28, 2002, we employed 1,964 persons, 1,111 of which were employed on a full-time basis and 853 of which were employed on a part-time basis. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are satisfactory. We offer our employees a discount on Skechers merchandise to encourage enthusiasm for the product and Skechers loyalty.

RISK FACTORS

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating us and our business.

OUR FUTURE SUCCESS DEPENDS ON OUR ABILITY TO RESPOND TO CHANGING CONSUMER DEMANDS, IDENTIFY AND INTERPRET FASHION TRENDS AND SUCCESSFULLY MARKET NEW PRODUCTS.

The footwear industry is subject to rapidly changing consumer demands and fashion trends. Accordingly, we must identify and interpret fashion trends and respond in a timely manner. Demand for and market acceptance of new products are uncertain and achieving market acceptance for new products generally requires substantial product development and marketing efforts and expenditures. If we do not continue to meet changing consumer demands and develop successful styles in the future, our growth and profitability will be negatively impacted. We frequently make decisions about product designs and marketing expenditures several months in advance of the time when consumer acceptance can be determined. If we fail to anticipate, identify or react appropriately to changes in styles and trends or are not successful in marketing new products, we could experience excess inventories, higher than normal markdowns or an inability to profitably sell our products. Because of these risks, a number of companies in the footwear industry specifically, and the fashion and apparel industry in general, have experienced periods of rapid growth in revenues and earnings and thereafter periods of declining sales and losses, which in some cases have resulted in companies in these industries ceasing to do business. Similarly, these risks could have a severe negative effect on our results of operations or financial condition.

OUR BUSINESS AND THE SUCCESS OF OUR PRODUCTS COULD BE HARMED IF WE ARE UNABLE TO MAINTAIN OUR BRAND IMAGE.

Our success to date has been due in large part to the strength of our brand. If we are unable to timely and appropriately respond to changing consumer demand, our brand name and brand image may be impaired. Even if we react appropriately to changes in

consumer preferences, consumers may consider our brand image to be outmoded or associate our brand with styles of footwear that are no longer popular. In the past, several footwear companies have experienced periods of rapid growth in revenues and earnings followed by periods of declining sales and losses. Our business may be similarly affected in the future.

OUR BUSINESS COULD BE HARMED IF WE FAIL TO MAINTAIN PROPER INVENTORY LEVELS.

We place orders with our manufacturers for some of our products prior to the time we receive all of our customers' orders. We do this to minimize purchasing costs, the time necessary to fill customer orders and the risk of non-delivery. We also maintain an inventory of certain products that we anticipate will be in greater demand. However, we may be unable to sell the products we have ordered in advance from manufacturers or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs, and the sale of excess inventory at discounted prices could significantly impair our brand image and have a material adverse effect on our operating results and financial condition. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply the quality products that we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer and distributor relationships, and diminish brand loyalty.

WE MAY BE UNABLE TO SUCCESSFULLY EXECUTE OUR GROWTH STRATEGY OR MANAGE OR SUSTAIN OUR GROWTH.

We have grown quickly since we started our business. Our ability to grow in the future depends upon, among other things, the continued success of our efforts to expand our footwear offerings and distribution channels. However, our rate of growth may decline or we may not be profitable in future quarters or fiscal years. Furthermore, as our business becomes larger, we may not be able to maintain our historical growth rate or effectively manage our growth. We anticipate that as our business grows, we will have to improve and enhance our overall financial and managerial controls, reporting systems and procedures. We may be unable to successfully implement our current growth strategy or other growth strategies or effectively manage our growth, any of which would negatively impair our net sales and earnings.

OUR BUSINESS MAY BE NEGATIVELY IMPACTED AS A RESULT OF CHANGES IN THE ECONOMY.

Our business depends on the general economic environment and levels of consumer spending that affect not only the ultimate consumer, but also retailers, our primary direct customers. Purchases of footwear tend to decline in periods of recession or uncertainty regarding future economic prospects, when consumer spending, particularly on discretionary items, declines. During periods of recession or economic uncertainty, we may not be able to maintain or increase our sales to existing customers, make sales to new customers, open and operate new retail stores, maintain sales levels at our existing stores, maintain or increase our international operations on a profitable basis, or maintain or improve our earnings from operations as a percentage of net sales. As a result, our operating results may be adversely and materially affected by downward trends in the economy or the occurrence of events that adversely affect the economy in general. Furthermore, in anticipation of continued increases in net sales, we have significantly expanded our infrastructure and workforce to achieve economies of scale. Because these expenses are fixed in the short term, our operating results and margins will be adversely impacted if we do not continue to grow as anticipated. For example, due in large part to the slowdown in the global economy, our net sales for 2001 were lower than anticipated. This lower level of sales adversely affected our operating results for 2001 and could continue to do so in 2002 and beyond.

ECONOMIC, POLITICAL, MILITARY OR OTHER EVENTS IN A COUNTRY WHERE WE MAKE SIGNIFICANT SALES OR HAVE SIGNIFICANT OPERATIONS COULD INTERFERE WITH OUR SUCCESS OR OPERATIONS THERE AND HARM OUR BUSINESS.

We market and sell our products and services throughout the world. The September 11, 2001 attacks disrupted commerce throughout the United States and other parts of the world. The continued threat of similar attacks throughout the world and the military action taken by the United States and other nations may cause significant disruption to commerce throughout the world. To the extent that such disruptions further slow the global economy or, more particularly, result in delays or cancellations of purchase orders for our products, our business and results of operations could be materially adversely affected. We are unable to predict whether the threat of new attacks or the responses thereto will result in any long-term commercial disruptions or if such activities or responses will have a long-term material adverse effect on our business, results

of operations or financial condition.

WE DEPEND UPON A RELATIVELY SMALL GROUP OF CUSTOMERS FOR A LARGE PORTION OF OUR SALES.

During 2001, our net sales to our five largest customers accounted for approximately 25.7% of total net sales. No one customer accounted for 10.0% or more of our net sales during 2001. As of December 31, 2001, one customer accounted for 10.2% of our net trade accounts receivable. Although we have long-term relationships with many of our customers, our customers do not have a contractual obligation to purchase our products and we cannot be certain that we will be able to retain our existing major customers. Furthermore, the retail industry regularly experiences consolidation, contractions and closings. If there are further consolidations, contractions or closings in the future, we may lose customers or be unable to collect accounts receivables of major customers in excess of amounts that we have insured. If we lose a major customer, experience a significant decrease in sales to a major customer, or are unable to collect the accounts receivable of a major customer in excess of amounts insured, our business could be harmed.

OUR OPERATING RESULTS COULD BE NEGATIVELY IMPACTED IF OUR SALES ARE CONCENTRATED IN ANY ONE STYLE OR GROUP OF STYLES.

If any one style or group of similar styles of our footwear were to represent a substantial portion of our net sales, we could be exposed to risk should consumer demand for such style or group of styles decrease in subsequent periods. We attempt to hedge this risk by offering a broad range of products, and no style comprised over 5.0% of our gross wholesale sales for the years ended either December 31, 2000 or 2001. However, this may change in the future and fluctuations in sales of any given style that represents a significant portion of our future net sales could have a negative impact on our operating results.

WE RELY ON INDEPENDENT CONTRACT MANUFACTURERS AND, AS A RESULT, ARE EXPOSED TO POTENTIAL DISRUPTIONS IN PRODUCT SUPPLY.

Our footwear products are currently manufactured by independent contract manufacturers. During 2001, the top four manufacturers of our manufactured products produced approximately 51.9% of our total purchases, but none individually accounted for more than 20.0%. We do not have long-term contracts with manufacturers and we compete with other footwear companies for production facilities. We could experience difficulties with these manufacturers, including reductions in the availability of production capacity, failure to meet our quality control standards, failure to meet production deadlines or increased manufacturing costs. This could result in our customers canceling orders, refusing to accept deliveries or demanding reductions in purchase prices, any of which could have a negative impact on our cash flow and harm our business.

If our current manufacturers cease doing business with us, we could experience an interruption in the manufacture of our products. Although we believe that we could find alternative manufacturers, we may be unable to establish relationships with alternative manufacturers that will be as favorable as the relationships we have now. For example, new manufacturers may have higher prices, less favorable payment terms, lower manufacturing capacity, lower quality standards or higher lead times for delivery. If we are unable to provide products consistent with our standards or the manufacture of our footwear is delayed or becomes more expensive, our business would be harmed.

OUR INTERNATIONAL SALES AND MANUFACTURING OPERATIONS ARE SUBJECT TO THE RISKS OF DOING BUSINESS ABROAD, WHICH COULD AFFECT OUR ABILITY TO SELL OR MANUFACTURE OUR PRODUCTS IN INTERNATIONAL MARKETS, OBTAIN PRODUCTS FROM FOREIGN SUPPLIERS OR CONTROL THE COSTS OF OUR PRODUCTS.

Substantially all of our net sales during 2001 were derived from sales of footwear manufactured in foreign countries, with most manufactured in China and,

to a lesser extent, in Italy, the Philippines and Brazil. We also sell our footwear in several foreign countries and plan to increase our international sales efforts as part of our growth strategy. Foreign manufacturing and sales are subject to a number of risks, including:

- political and social unrest;
- changing economic conditions;
- international political tension and terrorism;
- work stoppages;
- transportation delays;
- loss or damage to products in transit;
- expropriation;

- nationalization;
- the imposition of tariffs and trade duties both international and domestically;
- import and export controls and other nontariff barriers;
- exposure to different legal standards (particularly with respect to intellectual property);
- compliance with foreign laws; and
- changes in domestic and foreign governmental policies.

In particular, because substantially all of our products are manufactured in China, adverse change in trade or political relations with China or political instability in China would severely interfere with the manufacture of our products and would materially adversely affect our operations.

In addition, if we, or our foreign manufacturers, violate United States or foreign laws or regulations, we may be subjected to extra duties, significant monetary penalties, the seizure and the forfeiture of the products we are attempting to import or the loss of our import privileges. Possible violations of United States or foreign laws or regulations could include inadequate record keeping of our imported product, misstatements or errors as to the origin, quota category, classification, marketing or valuation of our imported products, fraudulent visas, or labor violations. The effects of these factors could render our conduct of business in a particular country undesirable or impractical and have a negative impact on our operating results.

OUR BUSINESS COULD BE HARMED IF OUR CONTRACT MANUFACTURERS, SUPPLIERS OR LICENSEES VIOLATE LABOR OR OTHER LAWS.

We require our independent contract manufacturers, suppliers and licensees to operate in compliance with applicable United States and foreign laws and regulations. Manufacturers are required to certify that neither convicted, forced or indentured labor (as defined under United States law) nor child labor (as defined by the manufacturer's country) is used in the production process, that compensation is paid in accordance with local law and that their factories are in compliance with local safety regulations. Although we promote ethical business practices and our sourcing personnel periodically visit and monitor the operations of our independent contract manufacturers, suppliers and licensees, we do not control them or their labor practices. If one of our independent contract manufacturers, suppliers or licensees violates labor or other laws or diverges from those labor practices generally accepted as ethical in the United States, it could result in adverse publicity for us, damage our reputation in

the United States, or render our conduct of business in a particular foreign country undesirable or impractical, any of which could harm our business.

OUR PLANNED EXPANSION INVOLVES A NUMBER OF RISKS THAT COULD PREVENT OR DELAY THE SUCCESSFUL OPENING OF NEW STORES AS WELL AS IMPACT THE PERFORMANCE OF OUR EXISTING STORES.

Our ability to open and operate new stores successfully depends on many factors, including, among others, our ability to:

- identify suitable store locations, the availability of which is outside of our control;

- negotiate acceptable lease terms, including desired tenant improvement allowances;

- source sufficient levels of inventory to meet the needs of new stores;

- hire, train and retain store personnel;

- successfully integrate new stores into our existing operations; and

- satisfy the fashion preferences in new geographic areas.

In addition, many of our new stores will be opened in regions of the United States in which we currently have few or no stores. The expansion into new markets may present competitive, merchandising and distribution challenges that are different from those currently encountered in our existing markets. Any of these challenges could adversely affect our business and results of operations. In addition, to the extent our new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets.

MANY OF OUR RETAIL STORES DEPEND HEAVILY ON THE CUSTOMER TRAFFIC GENERATED BY SHOPPING AND FACTORY OUTLET MALLS OR BY TOURISM.

Many of our concept stores are located in shopping malls and some of our factory outlet stores are located in manufacturers' outlet malls where we depend on obtaining prominent locations in the malls and the overall success of the malls to generate customer traffic. We cannot control the development of new malls, the availability or cost of appropriate locations within existing or new malls or the success of individual malls. Some of our concept stores occupy street locations which are heavily dependent on customer traffic generated by tourism. Any substantial decrease in tourism resulting from the September 11, 2001 attacks, a downturn in the economy or otherwise, is likely to adversely affect sales in our existing stores, particularly those with street locations. The effects of these factors could hinder our ability to open retail stores in new markets or reduce sales of particular existing stores, which could negatively affect our operating results.

OUR QUARTERLY REVENUES AND OPERATING RESULTS FLUCTUATE AS A RESULT OF A VARIETY OF FACTORS, INCLUDING SEASONAL FLUCTUATIONS IN DEMAND FOR FOOTWEAR AND DELIVERY DATE DELAYS, WHICH MAY RESULT IN VOLATILITY OF OUR STOCK PRICE.

Our quarterly revenues and operating results have varied significantly in the past and can be expected to fluctuate in the future due to a number of factors, many of which are beyond our control. For example, sales of footwear products have historically been somewhat seasonal in nature with the strongest sales generally occurring in the third and fourth quarters. Also, delays in scheduling or pickup of purchased products by our domestic customers could negatively impact our net sales and results of operations for any given quarter. As a result of these specific and other general factors, our operating results will likely vary from quarter to quarter and the results for any particular quarter may not be necessarily indicative of results for the full year. Any

shortfall in revenues or net income from levels expected by securities analysts and investors could cause a decrease in the trading price of our Class A common shares.

WE FACE INTENSE COMPETITION, INCLUDING COMPETITION FROM COMPANIES WITH SIGNIFICANTLY GREATER RESOURCES THAN OURS, AND IF WE ARE UNABLE TO COMPETE EFFECTIVELY WITH THESE COMPANIES, OUR MARKET SHARE MAY DECLINE AND OUR BUSINESS COULD BE HARMED.

We face intense competition in the footwear industry from other established companies. A number of our competitors have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources than we do. Their greater capabilities in these areas may enable them to better withstand periodic downturns in the footwear industry, compete more effectively on the basis of price and production and more quickly develop new products. In addition, new companies may enter the markets in which we compete, further increasing competition in the footwear industry.

We believe that our ability to compete successfully depends on a number of factors, including the style and quality of our products and the strength of our brand name, as well as many factors beyond our control. We may not be able to compete successfully in the future, and increased competition may result in price reductions, reduced profit margins, loss of market share, and inability to generate cash flows that are sufficient to maintain or expand our development and marketing of new products, which would adversely impact the trading price of our Class A common shares.

OBTAINING ADDITIONAL CAPITAL TO FUND OUR OPERATIONS AND FINANCE OUR GROWTH COULD MAKE IT DIFFICULT FOR US TO SERVICE OUR DEBT OBLIGATIONS.

If our working capital needs exceed our current expectations, we may need to raise additional capital through public or private equity offerings or debt financings. If we cannot raise needed funds on acceptable terms, we may not be able to successfully execute our growth strategy, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. To the extent we raise additional capital by issuing debt, it may become difficult for us to meet debt service obligations. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. Also, any new equity securities may have greater rights, preferences or privileges than our existing Class A common shares.

WE DEPEND ON KEY PERSONNEL TO MANAGE OUR BUSINESS EFFECTIVELY IN A RAPIDLY CHANGING MARKET, AND IF WE ARE UNABLE TO RETAIN EXISTING PERSONNEL, OUR BUSINESS COULD BE HARMED.

Our future success depends upon the continued services of Robert Greenberg, Chairman of the Board and Chief Executive Officer, Michael Greenberg, President, and David Weinberg, Executive Vice President and Chief Financial Officer. The loss of the services of any of these individuals or any other key employee could harm us. Our future success also depends on our ability to identify, attract and retain additional qualified personnel. Competition for employees in our industry is intense and we may not be successful in attracting and retaining such personnel.

OUR TRADEMARKS, DESIGN PATENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS MAY NOT BE ADEQUATELY PROTECTED OUTSIDE THE U.S.

We believe that our trademarks, design patents and other proprietary rights are important to our success and our competitive position. We devote substantial resources to the establishment and protection of our trademarks and design patents on a worldwide basis. In the course of our international expansion, we have, however, experienced conflicts with various third parties that have acquired or claimed ownership rights in certain trademarks similar to ours or have otherwise contested our rights to our trademarks. We have in the past successfully resolved these conflicts through both legal action and negotiated

settlements, none of which we believe has had a material impact on our financial condition and results of operations. Nevertheless, we cannot assure you that the actions we have taken to establish and protect our trademarks and other proprietary rights outside the U.S. will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of the trademarks and proprietary rights of others. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks, designs and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the U.S. We may face significant expenses and liability in connection with the protection of our intellectual property rights outside the U.S. and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition may be adversely affected.

OUR ABILITY TO COMPETE COULD BE JEOPARDIZED IF WE ARE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS OR IF WE ARE SUED FOR INTELLECTUAL PROPERTY INFRINGEMENT.

We use trademarks on nearly all of our products and believe that having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying us, and in distinguishing our goods from the goods of others. We consider our Skechers(R) and S Design(R) trademarks to be among our most valuable assets and we have registered these trademarks in many countries. In addition, we own many other trademarks, which we utilize in marketing our products. We continue to vigorously protect our trademarks against infringement. We also have a number of design patents covering components and features used in various shoes. We believe that our success depends primarily upon skills in design, research and development, production and marketing rather than upon our patent position. However, we have followed a policy of filing applications for United States and foreign patents on designs that we deem valuable.

We believe that our patents and trademarks are generally sufficient to permit us to carry on our business as presently conducted. We cannot, however, know whether we will be able to secure patents or trademark protection for our intellectual property in the future or that protection will be adequate for future products. Further, we face the risk of ineffective protection of intellectual property rights in the countries where we source and distribute our products. We have been sued for patent and trademark infringement and cannot be sure that our activities do not and will not infringe on the proprietary rights of others. If we are compelled to prosecute infringing parties, defend our intellectual property, or defend ourselves from intellectual property claims made by others, we may face significant expenses and liability which could negatively impact our business or financial condition.

ENERGY SHORTAGES, NATURAL DISASTERS OR A DECLINE IN ECONOMIC CONDITIONS IN CALIFORNIA COULD INCREASE OUR OPERATING EXPENSES OR ADVERSELY AFFECT OUR SALES REVENUE.

A substantial portion of our operations are located in California, including 37 of our retail stores, our headquarters in Manhattan Beach and our domestic distribution center in Ontario. Because California has and may in the future experience energy and electricity shortages, we may be subject to increased operating costs as a result of higher electricity and energy rates and may be subject to rolling blackouts which could interrupt our business. Any such impact could be material and adversely affect our profitability. In addition, because a significant portion of our net sales is derived from sales in California, a decline in the economic conditions in California, whether or not such decline spreads beyond California, could materially adversely affect our business. Furthermore, a natural disaster or other catastrophic event, such as an earthquake affecting California, could significantly disrupt our business. We may be more susceptible to these issues than our competitors whose operations are not as concentrated in California.

ONE PRINCIPAL STOCKHOLDER IS ABLE TO CONTROL SUBSTANTIALLY ALL MATTERS REQUIRING A VOTE OF OUR STOCKHOLDERS AND HIS INTERESTS MAY DIFFER FROM THE INTERESTS OF

OUR OTHER STOCKHOLDERS.

As of December 31, 2001, Robert Greenberg, Chairman of the Board and Chief Executive Officer, beneficially owned 74.4% of our outstanding Class B common shares and members of Mr. Greenberg's immediate family beneficially owned the remainder of our outstanding Class B common shares. The holders of Class A common shares and Class B common shares have identical rights except

that holders of Class A common shares are entitled to one vote per share while holders of Class B common shares are entitled to ten votes per share on all matters submitted to a vote of our stockholders. As a result, as of December 31, 2001, Mr. Greenberg held approximately 69.5% of the aggregate number of votes eligible to be cast by our stockholders and together with shares held by other members of his immediate family held approximately 93.4% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Mr. Greenberg is able to control substantially all matters requiring approval by our stockholders. Matters that require the approval of our stockholders include the election of directors and the approval of mergers or other business combination transactions. Mr. Greenberg also has control over our management and affairs. As a result of such control, certain transactions are not possible without the approval of Mr. Greenberg, including, proxy contests, tender offers, open market purchase programs, or other transactions that can give our stockholders the opportunity to realize a premium over the then-prevailing market prices for their shares of our Class A common shares. The differential in the voting rights may adversely affect the value of our Class A common shares to the extent that investors or any potential future purchaser view the superior voting rights of our Class B common shares to have value.

OUR CHARTER DOCUMENTS AND DELAWARE LAW MAY INHIBIT A TAKEOVER, WHICH MAY CAUSE A DECLINE IN THE VALUE OF OUR STOCK.

Provisions of Delaware law, our certificate of incorporation, or our bylaws could make it more difficult for a third party to acquire us, even if closing such a transaction would be beneficial to our stockholders. Mr. Greenberg's substantial beneficial ownership position, together with the authorization of Preferred Stock, the disparate voting rights between the Class A common shares and Class B common shares, the classification of the Board of Directors and the lack of cumulative voting in our certificate of incorporation and bylaws, may have the effect of delaying, deferring or preventing a change in control, may discourage bids for our Class A common shares at a premium over the market price of the Class A common shares and may adversely affect the market price of the Class A common shares.

SPECIAL NOTE ON FORWARD LOOKING STATEMENTS AND REPORTS PREPARED BY ANALYSTS.

This Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements with regards to our revenues, earnings, spending, margins, cash flow, orders, inventory, products, actions, plans, strategies and objectives. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or simply state future results, performance or achievements, and may contain the words "believe," "anticipate," "expect," "estimate," "intend," "plan," "project," "will be," "will continue," "will," "result," "could," "may," "might," or any variations of such words with similar meanings. Any such statements are subject to risks and uncertainties that would cause our actual results to differ materially from those which are management's current expectations or forecasts. Such information is subject to the risk that such expectations or forecasts, or the assumptions underlying such exceptions or forecasts, become inaccurate. In addition, the risks included here are not exhaustive. Other sections of this report may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and we cannot predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ

materially from those contained in any forward looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also be aware that while we do, from time to time, communicate with securities analysts, we do not disclose any material non-public information or other confidential commercial information to them. Accordingly, individuals should not assume that we agree with any statement or report issued by any analyst, regardless of the content of the report. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

ITEM 2. PROPERTIES

Our corporate headquarters and additional administrative offices are located at five premises in Manhattan Beach, California, and consist of an aggregate of approximately 110,000 square feet. We own and lease portions of our corporate headquarters and administrative offices. The leased property expires between August 2002 and February 2008, with options to extend in some cases, the current aggregate annual rent for the leased property is approximately $1.2 million.

Our distribution center consists of four facilities located in Ontario, California. The three leased facilities aggregate approximately 1,176,000 square feet, with an annual base rental of approximately $5.2 million. The leased property expires between August 2002 and May 2011, and contains rent escalation provisions. The owned distribution facility is approximately 264,000 square feet.

All of our retail stores and showrooms are leased with terms expiring between January 2003 and August 2012. The leases provide for rent escalations tied to either increases in the lessor's operating expenses or fluctuations in the consumer price index in the relevant

geographical area, and in some cases a percentage of the store's gross sales in excess of the base annual rent. Total rent expenses related to our retail stores and showrooms was $9.3 million for the year ended December 31, 2001.

In February 2001, we completed the purchase of three adjacent properties located in Manhattan Beach, California for a total of $4.5 million. We financed the purchase of the properties through internally generated funds and currently available short-term borrowings. We intend to build additional administrative offices on these properties.

We also lease all of our administrative offices, retail stores and showrooms located in France, Germany, Switzerland, and the United Kingdom. The leased property expires at various dates between July 2002 and March 2016. Total rent for this leased property aggregated approximately $1.4 million during 2001.

ITEM 3. LEGAL PROCEEDINGS

On December 29, 1999, a complaint captioned SHAPIRO, ET AL., V. SKECHERS U.S.A., INC., ET AL. was filed against Skechers and two of its officers and directors in the United States District Court, Central District of California, Case No. 99-13559. The complaint is a purported class action claiming damages for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The complaint also names as defendants the underwriters for Skechers' June 9, 1999 initial public offering of its Class A Common Stock. On January 12, 2000, a complaint captioned Abraham, et al., v. Skechers U.S.A., Inc., et al. was filed against Skechers and two of its officers and directors in the United States District Court, Central District of California, Court Case No. 00-00471. The complaint is a purported class action claiming damages for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. On January 24, 2000, a complaint captioned Astrolio, et al., v. Skechers U.S.A., Inc., et al. was filed against Skechers and two of its officers and directors in the United States District Court, Central District of California,

Case No. 00-00772. The complaint is a purported class action claiming damages for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The complaint also names the underwriters for Skechers' initial public offering of its Class A Common Stock as defendants in the case. On January 19, 2000, a complaint captioned Pugliesi, et al., v. Skechers U.S.A., Inc., et al. was filed against Skechers and two of its officers and directors in the United States District Court, Central District of California, Case No. 00-00631. The complaint is a purported class action claiming damages for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934.

All four securities actions were subsequently consolidated into one matter and a consolidated complaint was filed on June 1, 2000. The consolidated complaint named as defendants Skechers, two officers of Skechers, and the underwriters of Skechers' initial public offering of its Class A Common Stock on June 9, 1999. The class alleged in the consolidated complaint, consists of all persons who purchased securities in, or traceable to, Skechers' initial public offering of its Class A Common Stock on June 9, 1999 or thereafter on the open market prior to June 15, 1999.

In response to the consolidated complaint, Skechers filed a motion to dismiss the entire case. On September 25, 2000, a tentative order was issued to dismiss the consolidated complaint in its entirety, with leave to amend, and on June 20, 2001, an order was issued dismissing the case in its entirety with leave to amend. The class filed an amended complaint on or about August 3, 2001, and on September 26, 2001, Skechers filed a motion to dismiss the amended complaint in its entirety. In response to the motion, and after discussions between class counsel and counsel for defendants, the class agreed to dismiss with prejudice the entire consolidated class action as to Skechers, its two named officers and defendants and the underwriters. The class agreed to dismiss with prejudice without any settlement from defendants. Thus, the stipulation had no material impact on operations or financial results. A stipulation of dismissal with prejudice was executed by the parties in late December 2001. The court signed the stipulation without modification and entered the order of dismissal on January 30, 2002.

On September 29, 2000, a complaint captioned MADISON TRADING LIMITED CORPORATION AND MERCURY INTERNATIONAL TRADING CORPORATION V. SKECHERS USA, INC., LOVITT FILMS, INC. AND BERT LOVITT was filed against Skechers in the United States District Court in Massachusetts, Civil Case No. CV-12016JLT. The lawsuit alleges quantum meruit, intentional interference with contract, intentional interference with advantageous relationship, unfair practices and declaratory relief arising out of a business arrangement between Skechers and inventor Bert Lovitt. The complaint seeks an injunction preventing Skechers from using certain technology, compensatory damages, exemplary damages and treble damages. The court denied the plaintiffs' motion for a preliminary injunction. In February 2002, all parties agreed to settlement in principle and as of this filing are reducing the settlement agreement to writing. The terms of the settlement are confidential. Notwithstanding, the terms will not have a material impact on the financial position or results of operations of Skechers.

We occasionally become involved in litigation arising from the normal course of business. Other than the foregoing, we believe that any liability with respect to pending legal actions, individually or in the aggregate, will not have a material adverse effect on our business, financial condition and results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to our security holders to be voted on during the fourth quarter of 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Class A Common Stock began trading on the New York Stock Exchange on June 9, 1999 after we completed the initial public offering of 7,000,000 shares of our Class A Common Stock at $11.00 per share. Our Class A Common Stock trades under the symbol "SKX". The following table sets forth, for the periods indicated, the high and low sales prices of our Class A Common Stock.

	HIGH	LOW
YEAR ENDED DECEMBER 31, 2001		
First Quarter	$32.20	$14.50
Second Quarter	40.30	22.80
Third Quarter	29.40	11.33
Fourth Quarter	15.05	10.00
YEAR ENDED DECEMBER 31, 2000		
First Quarter	$ 7.69	$ 3.25
Second Quarter	16.31	7.50
Third Quarter	19.94	12.50
Fourth Quarter	16.75	11.44
YEAR ENDED DECEMBER 31, 1999		
Second Quarter (1)	$11.81	$ 9.75
Third Quarter	10.25	4.75
Fourth Quarter	5.19	3.44

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(1) For the period from June 9, 1999 to June 30, 1999.

As of March 25, 2002, there were 104 holders of record of our Class A Common Stock (including holders who are nominees for an undetermined number of beneficial owners) and 9 holders of record of our Class B Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class B Common Stock is not publicly traded but each share is convertible upon request of the holder into one share of Class A Common Stock.

In May 1992, we elected to be treated for federal and state income tax purposes as an S Corporation under Subchapter S of the Internal Revenue Code of 1986, as amended (the "Code"), and comparable state laws. As a result, our earnings, since such initial election, were included in the taxable income of our stockholders for federal and state income tax purposes, and we were not subject to income tax on such earnings, other than franchise and net worth taxes. Prior to the closing of the initial public offering of our Class A common shares on June 9, 1999, we terminated our S Corporation status, and since then we have been treated for federal and state income tax purposes as a corporation under Subchapter C of the Code and, as a result, are subject to state and federal income taxes. By reason of our treatment as an S Corporation for federal and state income tax purposes, we, since inception, have provided to our stockholders funds for the payment of income taxes on our earnings as well as our conversion from an S Corporation to a C Corporation during 1999. We declared distributions relating to our S Corporation status of $35.4 million and $7.9 million in 1999 and 1998, respectively. Purchasers of shares in the initial public offering of our Class A common shares on June 9, 1999 did not receive any portion of these S Corporation distributions. Since the termination of our S Corporation status earnings have been and will be retained for the foreseeable future in the operations of our business. We have not declared or paid any cash dividends on our Class A common shares and do not anticipate paying any cash dividends in the foreseeable future. Our current policy is to retain all of our earnings to finance the growth and development of our business.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial data of Skechers as of and for each of the years in the five-year period ended December 31, 2001.

SUMMARY FINANCIAL DATA
(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	YEARS ENDED DECEMBER 31,				
	1997	1998	1999	2000	2001
STATEMENT OF EARNINGS DATA:					
Net sales	$183,827	$372,680	$424,601	$675,036	$960,385
Gross profit	68,723	154,580	174,608	284,225	554,205
Operating expenses:					
Selling	21,584	49,983	57,332	77,451	111,401
General and administrative	32,397	71,461	79,114	125,827	205,989
Earnings from operations	15,636	33,991	38,830	81,263	88,487
Interest expense	4,186	8,631	6,554	9,230	13,852
Earnings before income taxes	11,413	25,121	32,691	72,351	75,955
Net earnings	11,023	24,471	24,056	43,751	47,270
PRO FORMA OPERATIONS DATA:(1)					
Earnings before income taxes	$ 11,413	$ 25,121	$ 32,691	$ 72,351	$ 75,955
Income taxes	4,565	10,048	12,880	28,600	28,685
Net earnings	6,848	15,073	19,811	43,751	47,270
Net earnings per share:(2)					
Basic	$ 0.25	$ 0.54	$ 0.62	$ 1.24	$ 1.30
Diluted	$ 0.23	$ 0.49	$ 0.60	$ 1.20	$ 1.24
Weighted average shares:(2)					
Basic	27,814	27,814	31,765	35,142	36,409
Diluted	29,614	30,610	33,018	36,563	38,059

	AS OF DECEMBER 31,				
BALANCE SHEET DATA:	1997	1998	1999	2000	2001
Working capital	$17,081	$ 23,106	$ 65,003	$ 93,305	$139,972
Total assets	90,881	146,284	177,914	303,400	407,486
Total debt	39,062	70,933	33,950	85,321	115,931
Stockholders' equity	11,125	27,676	86,000	134,046	199,016

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(1) Reflects adjustments for federal and state income taxes as if Skechers had been taxed as a C Corporation rather than as an S Corporation for periods prior to its initial public offering on June 9, 1999.

(2) Basic earnings per share represents net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if options to issue common stock were exercised or converted into common stock. The weighted average diluted shares outstanding gives effect to the sale by Skechers of those shares of common stock necessary to fund the payment of (i) stockholder distributions paid or declared from January 1, 1998 to June 7, 1999, the S Corporation termination date, in excess of (ii) the S Corporation earnings from January 1, 1998 to December 31, 1998 for 1996 through 1998, and January 1, 1999 to June 7, 1999 for 1999, based on an initial public offering price of $11 per share, net of underwriting discounts.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

OF OPERATIONS

Certain information contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements within the meaning of the Securities Act and the Securities Exchange Act, which can be identified by the use of forward-looking terminology such as "believes," "anticipates," "plans," "expects," "endeavors," "may," "will," "intends," "estimates" and similar expressions that are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties, and our actual results may differ materially from the results discussed in the forward-looking statements as a result of certain factors set forth in "Risk Factors" and elsewhere in this report.

OVERVIEW

We design, market and sell contemporary footwear for men, women and children under the Skechers brand. Our footwear is sold through a wide range of department stores and leading specialty retail stores, a growing network of our own retail stores and our e-commerce website. Our objective is to continue to profitably grow our domestic operations, while leveraging our brand name to expand internationally.

We generate revenues from three principal sources:

- WHOLESALE. We sell footwear directly to department stores and specialty retail stores both domestically and internationally.

- RETAIL. We own and operate our own retail stores both domestically and, on a smaller scale, internationally through three integrated retail formats. Our retail formats are as follows:

  Concept Stores. Our concept stores are located in marquee street locations and high performing regional malls, promote awareness of the Skechers brand and showcase a broad assortment of our in-season footwear styles.

  Factory Outlet Stores. Our factory outlet stores are generally located in manufacturers' outlet centers and provide opportunities to sell an assortment of in-season, discontinued and excess merchandise at lower price points.

  Warehouse Outlet Stores. Our freestanding warehouse outlet stores appeal to our most value conscious customers and enable us to liquidate excess merchandise, discontinued lines and odd-size inventory in a cost-efficient manner.

- DISTRIBUTORS. Internationally, we sell our footwear to our foreign distributors who distribute such footwear to department stores and specialty retail stores in Europe, Asia, Latin America, South America and numerous other countries and territories.

The substantial portion of our revenues are derived from domestic wholesale sales. Typically, retail sales achieve higher gross margins as a percentage of net sales than wholesale sales. Sales through foreign distributors result in lower gross margins as a percentage of net sales than retail or wholesale sales. None of our domestic retail sales, international wholesale sales, international retail sales, or international distributor sales comprised more than 10% of our consolidated net sales for either fiscal 1999, 2000 or 2001.

We have implemented a strategy of controlling the growth of the distribution channels through which our products are sold in order to protect the Skechers brand name, properly secure customer accounts and better manage the growth of the business. We seek wholesale accounts that we believe can best support the Skechers brand name in the market as part of our efforts to expand our wholesale distribution. We seek to selectively open retail stores in high profile, high

traffic locations in major metropolitan areas both domestically and internationally. Domestically, we are currently planning to open approximately 10 to 15 retail stores during fiscal 2002 as compared to 26 in fiscal 2001. We seek to increase the number of international wholesale accounts which we sell directly to, thereby reducing our reliance on foreign distributors and may seek to open additional international retail stores on a selected basis.

We have realized rapid growth since inception, increasing net sales at a compound annual growth rate of 40.1% from $90.8 million in 1994 to $960.4 million in 2001. This momentum continued into 2001 with a 42.3% increase in sales and an 8.0% increase in net earnings compared to 2000. However, given the current global economic environment and the world events triggered on September 11, 2001, we currently do not anticipate achieving similar sales growth during the year ending December 31, 2002. Based on our current estimates, we anticipate sales levels during the first six months of fiscal 2002 to be consistent with the first six months of fiscal 2001, and any sales growth to be realized during the second half of 2002. These estimates may be affected by the continued threat of terrorist attacks throughout the world and any military action taken by the United States and other nations that could cause additional significant disruption to commerce throughout the world.

As our sales growth accelerated, we focused on investing in our infrastructure to support continued expansion in a disciplined manner. During 2000, we expanded our distribution and administrative facilities, hired additional personnel, developed product sourcing and quality control offices in China and Taiwan, upgraded our management information systems, opened additional retail stores and expanded the offerings available through our web site. During 2001, we made planned infrastructure additions to support the addition of 26 new domestic retail stores, commenced our international expansion with the establishment of international subsidiaries in the United Kingdom, France and Germany to manage our direct selling efforts in those areas, opened our first three

international flagship retail stores and increased the number of product lines to expand the breadth of our product offerings. The fixed costs incurred during this expansion period have not yet been leveraged over a full year's sales. We established this infrastructure to achieve economies of scale in anticipation of continued increases in sales. Because expenses relating to this infrastructure are fixed, at least in the short-term, operating results and margins would be adversely affected if we do not achieve our anticipated sales growth. For example, due in large part to the slowdown in the global economy, our net sales in 2001 were lower than anticipated. This lower level of sales adversely affected our operating results for 2001 and could continue to do so in 2002 and beyond.

Our gross margins have improved annually from 41.1% in 1999 to 42.1% in 2000 to 42.3% in 2001. During the fourth quarter ended December 31, 2001, our gross margin was 39.7% compared to 43.3% in the same period during 2000. Given the continuing weak retail environment, we currently anticipate that margins during the first half of fiscal 2002 will be consistent with gross margins during the fourth quarter of fiscal 2001 and, if any, improvement to take place during the second half of fiscal 2002. Operating margin as a percentage of net sales increased from 9.1% in 1999 to 12.0% in 2000 but decreased to 9.2% during 2001. Increasing sales and maintaining or improving gross margins and operating margins depends on various factors, including, strength of our brand name, competitive conditions and our ability to efficiently manage sales through all distribution channels. In the future, our rate of growth will be dependent upon, among other things, the continued success of our efforts to expand our footwear offerings within the Skechers brand or developing alternative, successful brands. We can not assure you that the rate of growth will not decline in future periods or that we will improve or maintain gross margins or operating margins.

Given the increase in 2001 of selling and general and administrative expenses on both an absolute dollar basis and as a percentage of net sales, and given the state of the global economy following the events of September 11,

2001, we initiated various cost cutting measures in the fourth quarter of 2001 to better leverage our cost infrastructure over our newly expanded operations. From a selling expense standpoint, we reorganized our sales force by consolidating some regions, which resulted in staff reductions. We also eliminated our mail order operations and related selling expenses associated with the mail order catalog, and we estimate the annual savings from these actions will be approximately $6.0 million in 2002. From the general and administrative expense standpoint, we eliminated some administrative positions and reduced temporary staff at our distribution center without reducing our order fulfillment rate.

Notwithstanding our cost cutting measures, we remain committed to the overall marketing strategy that has been largely responsible for the increase in the market presence, product visibility and product demand over the past three years. We have and continue to increase our advertising budget consistent with projected sales, which has included such avenues as magazines, television, trade shows, billboards, and buses. We endeavor to spend approximately 8% to 10% of annual net sales in the marketing of Skechers footwear through advertising, promotions, public relations, trade shows and other marketing efforts.

We believe that selective licensing of the Skechers brand name to non-footwear-related manufacturers may broaden and enhance the Skechers image without requiring us to expend significant capital investments or incur significant incremental operating expenses. Although we have licensed certain manufacturers to produce and market certain Skechers products on a limited basis, to date we have not derived any significant royalty income from these licensing arrangements. Royalty income is recognized as revenue when earned. We believe that revenues from licensing agreements will not be a material source of growth for us in the near term; however, we believe that licensing arrangements may present attractive long-term opportunities with minimal near-term costs.

We contract with third parties for the manufacture of all our products. We do not own or operate any manufacturing facilities. In 2001, the top four suppliers of our products accounted for 51.9% of our total purchases, but no one manufacturer accounted for more than 20.0%. To date, substantially all products are purchased in U.S. dollars, but this may not continue to be the case. We believe the use of independent manufacturers increases our production flexibility and capacity yet at the same time allows us to substantially reduce capital expenditures and avoid the costs of managing a large production work force. Substantially all of our products are produced in China. We finance our production activities in part through the use of interest-bearing open purchase arrangements with certain of our Asian suppliers. These facilities currently bear interest at a rate between 0.5% and 1.5% with financing for 30 to 60 days. We believe that the use of these arrangements affords us additional liquidity and flexibility.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000

Net Sales

Net sales for 2001 increased 42.3% to $960.4 million compared to $675.0 million in 2000. The increase in net sales was due in part to a 37.0% increase in domestic wholesale revenues over 2000 levels as a result of increased sales in all product lines, primarily Women's Sport and Kids lines, the introduction of three new product lines during 2001, and additional styles added within each

product line. Domestic wholesale volume increased to 42.1 million pairs in 2001 from 29.4 million pairs in 2000. Domestic retail sales increased 50% over 2000 levels largely due to the addition of 26 retail stores during 2001. Net sales from our direct mail and web based distribution channels remained consistent in 2001 as compared to 2000. However, in October 2001, we elected to discontinue our mail order and catalog operations, which represented less 1% of net sales in 2001, although we continue to offer a selected assortment of merchandise through our interactive website.

During 2001, total international sales increased 85.7% over 2000 levels. International sales consist of distributor sales, which increased 47.4% due to continued acceptance of our product offerings in the international marketplace. International wholesale revenues increased substantially from nominal levels in 2000 due to marketing and advertising campaigns in support of the establishment of our three international subsidiaries located in the United Kingdom, France and Germany, where we began to sell direct to department stores and specialty retailers in 2001. During 2001, we generated our first international retail sales as we opened our first three international flagship retail stores located in the United Kingdom, France and Germany.

Gross Profit

Gross profit for 2001 was $406.2 million, an increase of 42.9% over $284.2 million in 2000. Gross margin was 42.3% for 2001 compared to 42.1% for 2000. The slight margin increase was the result of reduced cargo costs partly offset by reduced margins during the three months ended December 31, 2001 for price concessions given to our wholesale customers and price reductions at our factory outlet and warehouse outlet stores to help stimulate inventory sell through at the retail level.

Selling expenses

Selling expenses for 2001 were $111.4 million, an increase of 43.8% over last year's $77.5 million. Selling expenses as a percent of net sales increased slightly to 11.6% from 11.5% in 2000. The increase in the level of spending was primarily due to increased advertising in both print and television media and additional advertising to support the increase in sales activities in the United Kingdom, Germany and France where we commenced selling direct to department stores and specialty retailers. During 2001 advertising expenses were $86.6 million, or 9.0% of net sales, compared to $59.1 million, or 8.8% of net sales in 2000.

General and administrative expenses

General and administrative expenses for 2001 were $206.0 million compared to $125.8 million in 2000. General and administrative expenses as a percentage of net sales was 21.4% in 2001 compared to 18.6% in 2000. The increase in general and administrative expenses in absolute dollars and as a percentage of net sales was due to planned infrastructure additions to support the 26 domestic retail stores added during 2001 and to establish operating entities, and flagship retail stores, in the United Kingdom, France and Germany to support our direct selling efforts in those countries. In addition, we increased our distribution capacity with facility and capital asset additions and enhanced our information systems to support the increase in sales volume.

Interest expense

Interest expense increased to $13.9 million in 2001 from $9.2 million in 2000. The increase was due to increased short-term borrowings to support our working capital requirements and retail store additions and increased capital asset financing to support the increase in sales volume and capacity expansion.

Other income

Other income increased to $1.3 million in 2001 compared to $318,000 in 2000. The increase in other income is due to rental income related to the leasing of offices at our administrative office building and legal settlements, partially offset by the disposal of fixed assets. We expect rental income to decrease during 2002 as tenant leases expire.

Income taxes

The effective tax rate in 2001 was 37.8% compared to 39.5% in 2000. The decrease in the effective tax rate is due to changes in income in differing tax jurisdictions as a result of our international expansion. We are expanding our international operations and plan to reinvest any undistributed earnings from our non-U.S. subsidiaries, thereby indefinitely postponing their remittance. As

a result, we do not plan to provide for deferred income taxes on any accumulated undistributed earnings that our non-U.S. subsidiaries earn in the future.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO THE YEAR ENDED DECEMBER 31, 1999

Net sales

Net sales for 2000 were $675.0 million, an increase of $250.4 million or 59.0% from $424.6 million in 1999. The increase was due in large part to a 59% increase in our domestic wholesale revenues over 1999 levels. In addition, we realized a 51.5% increase in domestic wholesale units sold to 29.4 million units in 2000 from 19.4 million units in 1999. The increase in the domestic wholesale business is primarily due to expansion of the domestic sales force, continued consumer acceptance of our product offerings, and increased marketing campaigns. During 2000, we continued to introduce, and generate sales from, new product categories in the women's, men's, children's athletic shoes, and our men's quality dress line. Domestic retail sales for 2000 increased 50% from 1999 levels due to increased sales at stores open for at least one year and from the addition of 10 new locations added during 2000. Net sales from our direct mail and web based distribution channels increased substantially in 2000 largely due to an increase in the number of direct mailings and an increase in the circulation of the mailings.

Fiscal 2000 international sales consisted almost entirely of sales through distributors and increased 48.4% over 1999 levels primarily due to increased brand acceptance and increased advertising campaigns. During 2000, we began our international direct selling efforts, through which we sold direct to department stores and specialty retainers and therefore generated nominal sales in 2000.

Gross profit

In 2000, gross profit increased to $284.2 million, a 62.8% increase from $174.6 million in 1999. Gross margin was 42.1% in 2000 compared to 41.1% in 1999. The increase in gross margin was due to (i) an increase in the proportion of sales derived from our women's footwear line, which have a higher gross margin than the men's footwear line, (ii) fewer markdowns as a percentage of sales and (iii) increased sales at retail.

Selling expenses

Selling expenses were $77.5 million in 2000, an increase of 35.1% over $57.3 million in 1999. However, selling expense as a percentage of net sales decreased to 11.5% in 2000 from 13.5% in 1999. The increase in absolute dollars was primarily due to increased print advertising, both internationally and domestically, increased promotional expenses, and additional sales commissions due to increased sales volume. During 2000, advertising expenses were $59.1 million, or 8.8% of net sales, compared to $47.4 million, or 11.2% of net sales in 1999.

General and administrative expenses

General and administrative expenses in 2000 were $125.8 million compared to $79.1 million in 1999. As a percent of sales, general and administrative expenses remained at 18.6% for both 2000 and 1999. The increase in absolute dollars was primarily due to additional personnel costs reflected in the form of additional salary, wages and temporary help costs to support the higher level of sales, and increased warehousing and distribution costs associated with increased sales volume. In addition, we realized increased operating costs from the 10 new retail facilities added during 2000, and, although to a lesser extent, we incurred additional general and administrative expenses related to infrastructure additions to support our international operations.

Interest expense

Interest expense increased to $9.2 million in 2000 from $6.6 million in

1999. The increase was due to increased financing costs associated with additional borrowings to support our working capital requirements, capital additions made during the year, increased purchases of inventory and the build up of accounts receivable commensurate with our growth.

Other, net

Other, net consists primarily of a gain from the settlement of commercial lawsuits and net gains from foreign exchange rate fluctuations.

Income taxes

The 2000 effective tax rate was 39.5%, which is comparable to the pro forma effective rate of 39.4% in 1999. The prior years pro forma taxes represent those taxes that would have been reported had we been subject to federal and state income taxes as a C corporation for the full year. We continually review and evaluate various tax strategies to minimize our tax liability.

We are expanding our international operations and plan to reinvest any undistributed earnings from our non-U.S. subsidiaries, thereby indefinitely postponing their remittance. As a result, we do not plan to provide for deferred income taxes on any accumulated undistributed earnings that our non-U.S. subsidiaries earn in the future. Assuming that our international operations are successful, our effective tax rates should decrease accordingly.

LIQUIDITY AND CAPITAL RESOURCES

Our capital needs are derived primarily from working capital requirements and the continued growth of the business. Our working capital at December 31, 2001 was $140.0 million, an increase of $46.7 million over working capital of $93.3 million at December 31, 2000. The increase in working capital was primarily due to the increase in accounts receivable, inventory, and prepaid and other current assets consisting primarily of prepaid income taxes offset by increased short-term borrowings and to a lesser extent accounts payable and accrued expenses.

Inventories increased $46.0 million or 41.1% to $157.7 million at December 31, 2001, from $111.7 million at December 31, 2000. Our sales backlog of $222.2 million at December 31, 2001 is consistent with the level at December 31, 2000. Our commitment to inventory at December 31, 2001, which includes inventory on hand, inventory in transit (for which we have title), and merchandise in process, for which we do not have title, increased slightly over our commitment to inventory at December 31, 2000. Also, the increase in our inventories reflects a greater breadth of products and support for the expansion of our international operations. At December 31, 2001, we had purchase commitments of approximately $89.4 million.

Net cash used in operating activities for the year ended December 31, 2001 was $1.7 million, compared to cash used in operating activities of $1.0 million for the same period last year. The increase in cash used in operating activities was primarily due to increases in receivables, inventories, and prepaid taxes.

Net cash used in investing activities was $31.5 million for the year ended December 31, 2001, an increase of $9.7 million over the $21.8 million for the year ended December 31, 2000. The increase in cash used in investing activities was due to increased capital expenditures related to the addition of 26 domestic retail stores, the addition of three international stores, capital expenditures related to establishing our international operating units, and the acquisition of real properties in Manhattan Beach, California that is expected to be converted into an administrative office facility.

Net cash provided by financing activities for the year ended December 31, 2001 was $40.0 million, compared to $20.8 million for the year ended December 31, 2000. The net cash provided by financing activities was derived primarily from our short-term credit facilities, and, to a lesser extent, proceeds from

the exercise of stock options and our employee stock purchase plan, partially offset by reductions in long-term debt.

In July 2001, we renegotiated our line of credit facility which now provides for borrowings of up to $150.0 million, with actual borrowings limited to available collateral and certain limitations on total indebtedness (approximately $54.2 million of availability as of December 31, 2001) with CIT Group, a subsidiary of TYCO, as agents for the lenders. At December 31, 2001, there was approximately $84.2 million outstanding under the revolving line of credit. The revolving line of credit bears interest at prime rate (4.75% at December 31, 2001) minus .5%. Interest on the line of credit is payable monthly in arrears. The revolving line of credit expires on December 31, 2003. The revolving line of credit provides a sub-limit for letters of credit of up to $30.0 million to finance our foreign purchases of merchandise inventory. As of December 31, 2001, we had approximately $5.4 million of letters of credit under the revolving line of credit. In February 2002, we borrowed an additional $ 43.0 million under the line of credit. The credit facility contains covenants indicating that stockholders' equity shall not decrease by more than 20% in any calendar quarter, and limits the payment of dividends if we are in default of any provision of the agreement. We were in compliance with these covenants as of December 31, 2001.

We finance our production activities in part through the use of interest-bearing open purchase arrangements with certain of our Asian manufacturers. These facilities currently bear interest at a rate between 0.5% and 1.5% for 30 to 60 days financing, depending on the factory.

We believe that anticipated cash flows from operations, available borrowings under our revolving line of credit, cash on hand and our financing arrangements will be sufficient to provide us with the liquidity necessary to fund our anticipated working capital and

capital requirements through fiscal 2002. However, in connection with our growth strategy, we will incur significant working capital requirements and capital expenditures. Our future capital requirements will depend on many factors, including, but not limited to, the levels at which we maintain inventory, the market acceptance of our footwear, the levels of promotion and advertising required to promote our footwear, the extent to which we invest in new product design and improvements to our existing product design and the number and timing of new store openings. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private financings. We cannot assure you that additional financing will be available or that, if available, it can be obtained on terms favorable to our stockholders and us. Failure to obtain such financing could delay or prevent our planned expansion, which could adversely affect our business, financial condition and results of operations. In addition, if additional capital is raised through the sale of additional equity or convertible securities, dilution to our stockholders could occur.

CRITICAL ACCOUNTING POLICIES

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, management must make estimates in the following areas:

Allowance for bad debts, returns, and customer chargebacks. We insure selected customer account balances both greater than $200,000 and accepted by the insurance company should our customer not pay. We also provide a reserve against our receivables for estimated losses that may result from our customers' inability to pay, and disputed and returned items. We determine the amount of the reserve by analyzing known uncollectible accounts, aged receivables,

economic conditions in the customers' country or industry, historical losses and our customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this reserve. To minimize the likelihood of uncollectibility, customers' credit-worthiness is reviewed periodically based on external credit reporting services and our experience with the account and adjusted accordingly. Should a customer's account become past due, we generally place a hold on the account and discontinue further shipments to that customer, minimizing further risk of loss. The likelihood of a material loss on an uncollectible account would be mainly dependent on deterioration in the overall economic conditions in a particular country or environment. Reserves are fully provided for all probable losses of this nature. Gross trade accounts receivable balance was $127.4 million and the allowance for doubtful accounts was $7.1 million at December 31, 2001.

Inventory adjustments. Inventories are stated at lower of cost or market. We review our inventory on a regular basis for excess and slow moving inventory based on prior sales and net realizable value. The likelihood of any material inventory write-down is dependent primarily on consumer demand and competitor product offerings. Inventories were stated at $157.7 million at December 31, 2001.

Valuation of intangible and other long-lived assets. When circumstances warrant, we assess the impairment of intangible and other long-lived assets that require us to make assumptions and judgments regarding the carrying value of these assets. The assets are considered to be impaired if we determine that the carrying value may not be recoverable based upon our assessment of the following events or changes in circumstances:

- the asset's ability to continue to generate income;

- loss of legal ownership or title to the asset;

- significant changes in our strategic business objectives and utilization of the asset(s); or

- the impact of significant negative industry or economic trends

If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. In addition, we base the useful lives and related amortization or depreciation expense on our estimate of the period that the assets will generate revenues or otherwise be used by us. If a change were to occur in any of the above-mentioned factors or estimates, the likelihood of a material change in our reported results would increase.

Litigation reserves. Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in the consolidated balance sheets. The likelihood of a material change in these estimated reserves would be dependent on new claims as they may arise and the favorable or unfavorable outcome of the particular litigation. Both the amount and range of loss on the

remaining pending litigation is uncertain. As such, we are unable to make a reasonable estimate of the liability that could result from unfavorable outcomes in litigation. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates. Such revisions in our estimates of the potential liability could materially impact our results of operation and financial position.

Valuation of deferred income taxes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The likelihood of a material change in our expected realization of these assets depends on future taxable income, and the effectiveness of our tax planning and strategies among the various tax jurisdictions in which we operate.

INFLATION

We do not believe that the relatively moderate rates of inflation experienced in the United States over the last three years have had a significant effect on our sales or profitability. However, we cannot accurately predict the effect of inflation on future operating results. Although higher rates of inflation have been experienced in a number of foreign countries in which our products are manufactured, we do not believe that inflation has had a material effect on our sales or profitability. While we have been able to offset our foreign product cost increases by increasing prices or changing suppliers in the past, we cannot assure you that we will be able to continue to make such increases or changes in the future.

EXCHANGE RATES

We receive U.S. dollars for substantially all of our product sales and our royalty income. Inventory purchases from offshore contract manufacturers are primarily denominated in U.S. dollars; however, purchase prices for our products may be impacted by fluctuations in the exchange rate between the U.S. dollar and the local currencies of the contract manufacturers, which may have the effect of increasing our cost of goods in the future. During 2001 and 2000, exchange rate fluctuations did not have a material impact on our inventory costs. We do not engage in hedging activities with respect to such exchange rate risk.

ITEM 7(a) QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

We do not hold any derivative securities.

Market risk is the potential loss arising from the adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates. Changes in interest rates and, in the future, changes in foreign currency exchange rates have and will have an impact on our results of operations.

Interest rate fluctuations. At December 31, 2001, approximately $84.2 million of our outstanding borrowings are subject to changes in interest rates; however, we do not use derivatives to manage this risk. This exposure is linked to the prime rate of interest. We believe that moderate changes in the prime rate will not materially affect our operating results or financial condition. For example, a 1% change in interest rates would result in approximately $842,000 annual impact on pretax income (loss) based upon those outstanding borrowing at December 31, 2001.

Foreign exchange rate fluctuations. We face market risk to the extent that changes in foreign currency exchange rates affect our non-U.S. dollar functional currency foreign subsidiary's assets and liabilities. In addition, changes in foreign exchange rates may affect the value of our inventory commitments. Also, inventory purchases of our products may be impacted by fluctuations in the exchange rates between the U.S. dollar and the local currencies of the contract manufacturers, which could have the effect of increasing cost of goods sold in the future. We manage these risks by primarily denominating these purchases and commitments in U.S. dollars. We do not engage in hedging activities with respect to such exchange rate risks.

FUTURE ACCOUNTING CHANGES

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), Accounting for Derivative Instruments and Hedging Activities. As a result, we recognize financial instruments, such as foreign currency forward contracts, at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically through the statement of earnings or through stockholders' equity as a component of accumulated other comprehensive income or loss. The classification depends on whether the derivative financial instrument qualifies

for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives designated as fair value hedges are matched in the statement of earnings against the respective gain or loss relating to the hedged items. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in accumulated other comprehensive income net of deferred taxes. Changes in fair values of derivatives not qualifying as hedges are currently reported in earnings. The implementation of this standard did not have a significant impact on our financial statements.

During April 2001, the Emerging Issues Task Force ("EITF") issued EITF No. 00-14, Accounting for Certain Sales Incentives, and EITF No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (including A Reseller of the Vendor's Products), which are effective for the first quarter beginning after December 15, 2001. These EITF's prescribe guidance regarding the timing of recognition and income statement classification of costs incurred for certain sales incentive programs to retailers and end consumers. We expect that the adoption of EITF No. 00-14 and EITF No. 01-9 will not have a material impact on our financial position or results of operations.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), Business Combinations, and Statement of Financial Accounting Standards No. 142 ("SFAS 142"), Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method be used for all business combinations initiated after June 30, 2001. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized to earnings, but instead be reviewed for impairment in accordance with the provisions of SFAS 142. The amortization of goodwill and intangible assets with indefinite useful lives ceases upon adoption of SFAS 142 which is effective for fiscal years starting after December 15, 2001. We are in the process of quantifying the anticipated impact of adopting the provisions of SFAS 142, which is not expected to be material.

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS 144 supersedes Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that statement. The standard is effective for fiscal years beginning after December 15, 2001. We expect that the adoption of SFAS 144 will not have a material impact on our financial position or results from operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is incorporated by reference to our Consolidated Financial Statements and Independent Auditors' Report beginning at page F-1 of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2001 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2001 fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2001 fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2001 fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Consolidated financial statements and schedules required to be filed hereunder are indexed on Page F-1 hereof.

(b) Reports on Form 8-K -- There were no reports on Form 8-K filed during the last quarter of the fiscal year ended December 31, 2001.

(c) Exhibits

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
2.1	Agreement of Reorganization and Plan of Merger (incorporated by reference to exhibit number 3.2(a) of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on May 12, 1999).
3.1	Certificate of Incorporation (incorporated by reference to exhibit number 3.1 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
3.2	Bylaws (incorporated by reference to exhibit number 3.2 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
3.2(a)	Amendment to Bylaws (incorporated by reference to exhibit number 3.2(a) of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on May 12, 1999).
4.1	Form of Specimen Class A Common Stock Certificate (incorporated by reference to exhibit number 4.1 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on May 12, 1999).
10.1	Amended and Restated 1998 Stock Option, Deferred Stock and Restricted Stock Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Registration

	Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
10.1(a)	Amendment No. 1 to Amended and Restated 1998 Stock Option, Deferred Stock and Restricted Stock Plan (incorporated by reference to exhibit number 4.4 of the Registrant's Registration Statement on Form S-8 (File No. 333-71114), filed with the Securities and Exchange Commission on October 5, 2001).
10.2	Amended and restated 1998 Employee Stock Purchase Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Form 10-Q, for the period ending June 30, 2000)
10.3	Employment Agreement dated June 14, 1999, between the Registrant and Robert Greenberg (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-Q for the period ending June 30, 1999).
10.3(a)	Amendment No. 1 to Employment Agreement between the Registrant and Robert Greenberg dated December 31, 1999 (incorporated by reference to exhibit number 10.3(a) of the Registrant's Form 10-K for the year ending December 31, 1999).
10.4	Employment Agreement dated June 14, 1999, between the Registrant and Michael Greenberg (incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q for the period ending June 30, 1999).
10.4(a)	Amendment to Employment Agreement between the Registrant and Michael Greenberg dated December 31, 2000 (incorporated by reference to exhibit number 10.4(a) of the Registrant's Form 10-K for the year ending December 31, 1999).
10.5	Employment Agreement dated June 14, 1999, between the Registrant and David Weinberg (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q for the period ending June 30, 1999).
10.5(a)	Amendment No. 1 to Employment Agreement between the Registrant and David Weinberg dated December 31, 2000 (incorporated by reference to exhibit number 10.5(a) of the Registrant's Form 10-K for the year ending December 31, 1999).

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.6	Indemnification Agreement dated June 7, 1999 between the Registrant and its directors and executive officers (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-K for the year ending December 31, 1999).
10.6(a)	List of Registrant's directors and executive officers who entered into Indemnification Agreement referenced in Exhibit 10.6 with the Registrant (incorporated by reference to exhibit number 10.6(a) of the Registrant's Form 10-K for the year ending December 31, 1999).

10.7	Registration Rights Agreement dated June 9, 1999, between the Registrant, the Greenberg Family Trust, and Michael Greenberg (incorporated by reference to exhibit number 10.7 of the Registrant's Form 10-Q for the period ending June 30, 1999).
10.8	Tax Indemnification Agreement dated June 8, 1999, between the Registrant and certain shareholders (incorporated by reference to exhibit number 10.8 of the Registrant's Form 10-Q for the period ending June 30, 1999).
10.9	Lease Agreement, dated July 1, 1999, between the Registrant and Richard and Donna Piazza, regarding 1108-B Manhattan Avenue, Manhattan Beach, California (incorporated by reference to exhibit number 10.22 of the registrant's Form 10-K for the year ending December 31, 1999).
10.10	Amended and Restated Loan and Security Agreement between the Registrant and Heller Financial, Inc., dated September 4, 1998 (incorporated by reference to exhibit number 10.10 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
10.10(a)	Term Loan A Note, dated September 4, 1998, between the Registrant and Heller Financial, Inc. (incorporated by reference to exhibit number 10.10(a) of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
10.10(b)	Revolving Note dated September 4, 1998, between the Registrant and Heller Financial, Inc. (incorporated by reference to exhibit number 10.10(b) of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
10.10(c)	First Amendment to Amended and Restated Loan and Security Agreement, dated September 11, 1998 (incorporated by reference to exhibit number 10.10(c) of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
10.10(d)	Second Amendment to Amended and Restated Loan and Security Agreement, dated December 23, 1998 (incorporated by reference to exhibit number 10.10(d) of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
10.10(e)	Third Amendment to Amended and Restated Loan and Security Agreement dated February 1, 2000 (incorporated by reference to exhibit number 10.10(e) of the Registrant's Form 10-K for the year ending December 31, 2000).
10.10(f)	Fourth Amendment to Amended and Restated Loan and Security Agreement dated June 1, 2000 (incorporated by reference to exhibit number 10.10(f) of the Registrant's Form 10-K for the year ending December 31, 2000).
10.10(g)	Fifth Amendment to Amended and Restated Loan and Security Agreement dated July 11, 2001 (incorporated by reference to exhibit number 10.10(g) of the Registrant's Form 10-Q for the period ending September 30, 2001).

10.11	Lease Agreement, dated April 15, 1998, between the Registrant and Holt/Hawthorn and Victory Partners, regarding 228 Manhattan Beach Boulevard, Manhattan Beach, California (incorporated by reference to exhibit number 10.11 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
10.12	Commercial Lease Agreement, dated February 19, 1997, between the Registrant and Richard and Donna Piazza, regarding 1110 Manhattan Avenue, Manhattan Beach, California (incorporated by reference to exhibit number 10.12 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
10.13	Lease Agreement, dated June 12, 1998, between the Registrant and Richard and Donna Piazza, regarding 1112 Manhattan Avenue, Manhattan Beach, California (incorporated by reference to exhibit number 10.13 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.14	Lease Agreement, dated November 21, 1997, between the Registrant and The Prudential Insurance Company of America, regarding 1661 So. Vintage Avenue, Ontario, California (incorporated by reference to exhibit number 10.14 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
10.15	Lease Agreements, dated November 21, 1997, between the Registrant and The Prudential Insurance Company of America, regarding 1777 So. Vintage Avenue, Ontario, California (incorporated by reference to exhibit number 10.15 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
10.16	Commercial Lease Agreement, dated April 10, 1998, between the Registrant and Proficiency Ontario Partnership, regarding 5725 East Jurupa Street (incorporated by reference to exhibit number 10.16 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
10.17	Lease Agreement and Addendum, dated June 11, 1998, between the Registrant and Delores McNabb, regarding Suite 3 on the first floor of the north building, Suite 9 on the first floor of the south building at 904 Manhattan Avenue, Manhattan Beach, California (incorporated by reference to exhibit number 10.17 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
10.18	Addendum to Lease Agreement, dated September 14, 1998, between the Registrant and Delores McNabb, regarding Suites 3, 4 and 5 on the second floor of the north

building at 904 Manhattan Avenue, Manhattan Beach, California (incorporated by reference to exhibit number 10.18 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).

10.18(a)	Addendum to Lease Agreement, dated April 15, 2000, between the Registrant and Delores McNabb, regarding Suites 7, 8 and 9 on the second floor of the south building at 904 Manhattan Avenue, Manhattan Beach, California.
10.19	Standard Offer, Agreement and Escrow Instructions, Addendum and Additional Provisions, dated October 12, 2000, between the Registrant and/or its assignees and Champagne Building Group L.P., for the purchase of property located at 1670 South Champagne Avenue, Ontario, California (incorporated by reference to exhibit number 10.19 of the Registrant's Form 10-K for the year ending December 31, 2000).
10.20	Lease Agreement, dated November 15, 1999, between the Registrant and Champagne Building Group L.P., regarding 1670 South Champagne Avenue, Ontario, California (incorporated by reference to exhibit number 10.20 of the Registrant's Form 10-K for the year ending December 31, 1999).
10.21	Amendment of Lease Agreement dated December 20, 2000, between the Registrant and Yale Investments, LLC (a wholly owned subsidiary of the Registrant), regarding 1670 South Champagne Avenue, Ontario, California (incorporated by reference to exhibit number 10.21 of the Registrant's Form 10-K for the year ending December 31, 2000).
10.22	Purchase and Sale Agreement with Escrow Instructions, dated November 13, 2000, between the Registrant and Pacifica California/Apollo, LLC, for the purchase of property located at 225 South Sepulveda Boulevard, Manhattan Beach, California (incorporated by reference to exhibit number 10.22 of the Registrant's Form 10-K for the year ending December 31, 2000).
10.22(a)	First Amendment to Purchase and Sale Agreement, dated November 29, 2000, between the Registrant and Pacifica California/Apollo, LLC, for the purchase of property located at 225 South Sepulveda Boulevard, Manhattan Beach, California (incorporated by reference to exhibit number 10.22(a) of the Registrant's Form 10-K for the year ending December 31, 2000).
10.23	Promissory Note, dated December 27, 2000, between the Registrant and Washington Mutual Bank, FA, for the purchase of property located at 225 South Sepulveda Boulevard, Manhattan Beach, California (incorporated by reference to exhibit number 10.23 of the Registrant's Form 10-K for the year ending December 31, 2000).
10.24	Assignment and Assumption Agreement, dated December 27, 2000, between the Registrant and Pacifica California/Apollo, LLC, regarding 225 South Sepulveda Boulevard, Manhattan Beach, California (incorporated by reference to exhibit number 10.24 of the Registrant's Form 10-K for the year ending December 31, 2000).

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.25	Loan Agreement, dated December 21, 2000, between Yale Investments, LLC, and MONY Life Insurance Company, for the purchase of property located at 1670 South Champagne Avenue, Ontario, California (incorporated by reference to exhibit number 10.25 of the Registrant's Form 10-K for the year ending December 31, 2000).
10.26	Promissory Note, dated December 21, 2000, between Yale Investments, LLC, and MONY Life Insurance Company, for the purchase of property located at 1670 Champagne Avenue, Ontario, California (incorporated by reference to exhibit number 10.26 of the Registrant's Form 10-K for the year ending December 31, 2000).
10.27	Lease Agreement, dated April 28, 2000, between the Registrant and Manhattan Corners, LLC, regarding 1100 Highland Avenue, Manhattan Beach, California.
10.28	Lease Agreement, dated April 10, 2001, between the Registrant and ProLogis California I LLC, regarding 4100 East Mission Boulevard, Ontario, California.
21.1	Subsidiaries of the Registrant
23.1	Consent of KPMG LLP
24.1	Power of Attorney (included on signature page)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Manhattan Beach, State of California on the 27th day of March, 2002.

SKECHERS U.S.A, INC.

By: /s/ ROBERT GREENBERG

Robert Greenberg
Chairman of the Board
and Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned officers and directors of Skechers U.S.A., Inc., do hereby constitute and appoint Robert Greenberg, Michael Greenberg and David Weinberg, or either of them, our true and lawful attorneys and agents, to do any and all acts and things in our names in the capacities indicated below, which said attorneys and agents, or either of them, may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connection with this report, including specifically, but without limitation, power and authority to sign for us or any of us in our names and in the capacities indicated below, any and all amendments to this report, and we do hereby ratify and confirm all that the said attorneys and agents, or either of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and

in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/S/ ROBERT GREENBERG Robert Greenberg	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 27, 2002
/S/ MICHAEL GREENBERG Michael Greenberg	President and Director	March 27, 2002
/S/ DAVID WEINBERG David Weinberg	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 27, 2002
Jeffrey Greenberg	Director	
J. Geyer Kosinski	Director	
/S/ THOMAS J. POLETTI Thomas J. Poletti	Director	March 27, 2002
Richard Siskind	Director	

SKECHERS U.S.A., INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Skechers U.S.A., Inc.:

We have audited the accompanying consolidated financial statements of Skechers U.S.A., Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the

consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Skechers U.S.A., Inc. and subsidiaries as of December 31, 2000 and 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Los Angeles, California
February 13, 2002

SKECHERS U.S.A., INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2000 AND 2001
(IN THOUSANDS)

ASSETS

	2000	2001
Current assets:		
Cash	$ 8,781	$ 15,554
Trade accounts receivable, less allowances of $5,152 in 2000 and $7,113 in 2001	96,628	120,285
Due from officers and employees	540	1,013
Other receivables	1,016	1,816
Total receivables	98,184	123,114
Inventories	111,708	157,659
Prepaid expenses and other current assets	6,457	17,695
Deferred tax assets	4,414	4,804
Total current assets	229,544	318,826
Property and equipment, at cost, less accumulated depreciation and amortization	70,405	85,739
Intangible assets, at cost, less applicable amortization	559	458
Other assets, at cost	2,892	2,463
	$303,400	$407,486
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 49,754	$ 84,175
Current installments of long-term borrowings	2,452	2,140
Accounts payable	72,865	77,498
Accrued expenses	11,168	15,041
Total current liabilities	136,239	178,854
Long-term borrowings, excluding current installments	33,115	29,616
Commitments and contingencies (footnote 9)		
Stockholders' equity:		
Preferred stock, $.001 par value. Authorized 10,000 shares;		

	December 31, 2000	December 31, 2001
none issued and outstanding	--	--
Class A Common stock, $.001 par value. Authorized 100,000 shares; issued and outstanding 10,789 and 15,329 shares at December 31, 2000 and 2001, respectively	10	15
Class B Common stock, $.001 par value. Authorized 60,000 shares; issued and outstanding 24,805 and 21,482 shares at December 31, 2000 and 2001, respectively	25	21
Additional paid-in capital	74,243	91,909
Accumulated other comprehensive income	--	33
Retained earnings	59,768	107,038
Total stockholders' equity	134,046	199,016
	$303,400	$407,486

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 1999, 2000, and 2001
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	1999	2000	2001
Net sales	$ 424,601	$ 675,036	$ 960,385
Cost of sales	249,993	390,811	554,205
Gross profit	174,608	284,225	406,180
Royalty income, net	668	316	(303)
	175,276	284,541	405,877
Operating expenses:			
Selling	57,332	77,451	111,401
General and administrative	79,114	125,827	205,989
	136,446	203,278	317,390
Earnings from operations	38,830	81,263	88,487
Other income (expense):			
Interest, net	(6,554)	(9,230)	(13,852)
Other, net	415	318	1,320
	(6,139)	(8,912)	(12,532)
Earnings before income taxes	32,691	72,351	75,955
Income taxes	8,635	28,600	28,685
Net earnings	$ 24,056	$ 43,751	$ 47,270
Net earnings per share:			
Basic		$ 1.24	$ 1.30
Diluted		$ 1.20	$ 1.24
Weighted-average shares:			
Basic		35,142	36,409
Diluted		36,563	38,059
Pro forma operations data (unaudited):			

Earnings before income taxes	$ 32,691
Income taxes	12,880
Net earnings	$ 19,811
Net earnings per share:	
Basic	$ 0.62
Diluted	$ 0.60
Weighted-average shares:	
Basic	31,765
Diluted	33,018

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 1999, 2000, and 2001
(IN THOUSANDS)

	COMMON STOCK				
	SHARES		AMOUNT		ADDITIONAL PAID-IN CAPITAL
	CLASS A	CLASS B	CLASS A	CLASS B	
Balance at December 31, 1998	--	27,814	--	$ 2	--
Net earnings	--	--	--	--	--
Proceeds from issuance of common stock in connection with initial public offering	7,000	--	$ 7	26	$ 69,687
Proceeds from issuance of common stock under the employee stock purchase plan	91	--	--	--	261
S Corporation distribution:					
Cash	--	--	--	--	--
Cross Colours trademark	--	--	--	--	--
Balance at December 31, 1999	7,091	27,814	7	28	69,948
Net earnings	--	--	--	--	--
Proceeds from issuance of common stock under the employee stock purchase plan	267	--	--	--	1,073
Proceeds from issuance of common stock under the employee stock option plan	422	--	--	--	1,499
Tax effect of non-qualified stock options	--	--	--	--	1,636
Deferred compensation	--	--	--	--	87
Conversion of Class B common stock into Class A common stock	3,009	(3,009)	3	(3)	--
Balance at December 31, 2000	10,789	24,805	10	25	74,243
Comprehensive income:					
Net earnings	--	--	--	--	--
Foreign currency translation adjustment	--	--	--	--	--
Proceeds from issuance of common stock under the employee stock purchase plan	1,081	--	1	--	7,679
Proceeds from issuance of common stock under the employee stock option plan	136	--	--	--	1,689
Tax effect of non-qualified stock options	--	--	--	--	8,298
Conversion of Class B common stock into Class A common stock	3,323	(3,323)	4	(4)	--
Balance at December 31, 2001	15,329	21,482	$ 15	$ 21	$ 91,909

	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 1998	--	$ 27,674	$ 27,676
Net earnings	--	24,056	24,056
Proceeds from issuance of common stock in connection with initial public offering	--	--	69,720
Proceeds from issuance of common stock under the employee stock purchase plan	--	--	261

S Corporation distribution:			
Cash	--	(35,363)	(35,363)
Cross Colours trademark	--	(350)	(350)
Balance at December 31, 1999	--	16,017	86,000
Net earnings	--	43,751	43,751
Proceeds from issuance of common stock under the employee stock purchase plan	--	--	1,073
Proceeds from issuance of common stock under the employee stock option plan		--	1,499
Tax effect of non-qualified stock options	--	--	1,636
Deferred compensation	--	--	87
Conversion of Class B common stock into Class A common stock	--	--	--
Balance at December 31, 2000	--	59,768	134,046
Comprehensive income:			
Net earnings	--	47,270	47,270
Foreign currency translation adjustment	33	--	33
Proceeds from issuance of common stock under the employee stock purchase plan	--	--	1,689
Proceeds from issuance of common stock under the employee stock option plan	--	--	7,680
Tax effect of non-qualified stock options	--	--	8,298
Conversion of Class B common stock into Class A common stock	--	--	--
Balance at December 31, 2001	$ 33	$ 107,038	$ 199,016

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999, 2000, and 2001
(IN THOUSANDS)

	1999	2000	2001
Cash flows from operating activities:			
Net earnings	$ 24,056	$ 43,751	$ 47,270
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization of property and equipment	3,752	5,894	15,202
Amortization of intangible assets	108	104	101
Provision (recovery) for bad debts and returns	(176)	1,915	1,961
Tax effect of non-qualified stock options	--	1,636	8,298
Deferred taxes	(2,810)	(1,604)	(390)
Deferred compensation	--	87	--
Loss on disposal of equipment	903	78	983
Gain (loss) on distribution of intangibles	(118)	--	--
Increase (decrease) in assets:			
Receivables	(17,282)	(33,426)	(26,891)
Inventories	(3,569)	(42,749)	(45,951)
Prepaid expenses and other current assets	(2,514)	(1,327)	(11,238)
Other assets	466	(1,437)	429
Increase in liabilities:			
Accounts payable	9,551	25,169	4,633
Accrued expenses	738	900	3,873
Net cash provided by (used in) operating activities	13,105	(1,009)	(1,720)
Cash flows used in investing activities:			
Capital expenditures	(10,846)	(21,897)	(31,519)
Proceeds from the sales of property and equipment	--	51	--
Net cash used in investing activities	(10,846)	(21,846)	(31,519)
Cash flows from financing activities:			
Net proceeds from initial public offering of common stock	69,720	--	--

Net proceeds from issuance of common stock	261	2,572	9,369
Net proceeds (payments) related to short-term borrowings	(23,697)	19,372	34,421
Payments on long-term debt	(1,042)	(1,144)	(3,811)
Payments on notes payable to stockholder	(12,244)	--	--
Distributions paid to stockholders	(35,363)	--	--
Net cash provided by (used in) financing activities	(2,365)	20,800	39,979
Net increase (decrease) in cash	(106)	(2,055)	6,740
Effect of exchange rates on cash	--	--	33
Cash at beginning of year	10,942	10,836	8,781
Cash at end of year	$ 10,836	$ 8,781	$ 15,554
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 6,782	$ 8,386	$ 13,613
Income taxes	10,619	27,712	27,220

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During 1999, the Company declared a noncash distribution of intangibles of $350.

During 2000, the Company acquired $14,444 of property and equipment under capital lease arrangements. In addition, the Company acquired an office building and distribution facility and issued two notes for $10,850 and $ 7,850, respectively.

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 2001

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The Company

Skechers U.S.A., Inc. (the Company) designs, develops, markets and distributes footwear. The Company also operates retail stores and e-commerce businesses.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Revenue Recognition

Revenue is recognized upon shipment of product or at point of sale for retail operations. Allowances for estimated returns, discounts, bad debts, and chargebacks are provided when the related revenue is recorded.

Revenues from royalty agreements are recognized as earned.

(c) Inventories

Inventories, principally finished goods, are stated at the lower of cost (based on the first-in, first-out method) or market. The Company provides for estimated losses from obsolete or slow-moving inventories and writes down the cost of inventory at the time such determinations are made.

(d) Income Taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(e) Depreciation and Amortization

Depreciation and amortization of property and equipment is computed using the straight-line method based on the following estimated useful lives:

Buildings	20 years
Building improvements	20 years or useful life, whichever is shorter
Furniture, fixtures and equipment	5 years
Leasehold improvements	Useful life or remaining lease term, whichever is shorter

Intangible assets consist of trademarks and are amortized on a straight-line basis over ten years. The accumulated amortization as of December 31, 2000 and 2001 is $492,000 and $593,000, respectively.

(f)Long-Lived Assets

The Company reports long-lived assets, including intangibles, at amortized cost. Management assesses the carrying value of assets if facts and circumstances suggest that such assets may be impaired. If this review indicates that the assets will not be recoverable, as determined by a nondiscounted cash flow projection over the remaining amortization period, their carrying value is reduced to

estimated fair value, based on discounted cash flows. The Company will implement SFAS No. 142, Goodwill and Other Intangible Assets, on January 1, 2002 and SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets. See note (1)(m).

(g) Advertising Costs

Advertising costs are expensed in the period in which the advertisements are first run or over the life of the endorsement contract. Advertising expense for the years ended December 31, 1999, 2000 and 2001 were approximately $47,400,000, $59,122,000 and $86,625,000, respectively. Prepaid advertising costs at December 31, 2000 and 2001 were $2,605,000 and $1,440,000, respectively. Prepaid amounts outstanding at December 31, 2000 and 2001 represents the unamortized portion of endorsement contracts and advertising in trade publications which had not run as of December 31, 2000 and 2001, respectively.

(h) 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 reflects the potential dilution that could occur if options to issue common stock were exercised or converted into common stock. The weighted average diluted shares outstanding for 1999 gives effect to the sale by the Company of those shares of common stock necessary to fund the payment of (i) stockholder distributions paid or declared from January 1, 1998 to June 7, 1999, the S Corporation termination date, in excess of (ii) the S Corporation earnings from January 1, 1998 to June 7, 1999 for 1999, based on an initial public offering price of $11 per share, net of underwriting discounts.

The reconciliation of basic to diluted weighted-average shares is as follows (in thousands):

	1999	2000	2001
Weighted-average shares used in basic computation................	31,765	35,142	36,409
Shares to fund stockholder distributions.........................	533	--	--
Dilutive effect of stock options.................................	720	1,421	1,650
Weighted-average shares used in diluted computation..............	33,018	36,563	38,059

Options to purchase 1,411,000, 1,117,920 and 279,500 shares of common stock at prices ranging from $6.13 to $24.00 were outstanding at December 31, 1999, 2000 and 2001, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares and therefore their inclusion would be anti-dilutive.

(i)Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Significant areas requiring the use of management estimates relate primarily to the valuation of inventories, accounts receivable allowances, the useful lives of assets for depreciation, evaluation of impairment, recoverability of deferred taxes and litigation reserves. Actual results could differ from those estimates.

(j)Product Design and Development Costs

The Company charges all product design and development costs to expense when incurred. Product design and development costs aggregated approximately $2,600,000, $3,700,000 and $5,493,000 during the years ended December 31, 1999, 2000 and 2001, respectively.

(k) Comprehensive Income

Other comprehensive income at December 31, 2000 and 2001, consists of net earnings and foreign currency translation gains of $0 and $33,000 respectively.

(l)Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments, which principally include cash, accounts receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The fair value of the Company's short-term and long-term borrowings reflects the fair value based upon current rates available to the Company for similar debt.

(m) New Accounting Standards

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), Accounting for Derivative Instruments and Hedging Activities. As a result, the Company recognizes financial instruments, such as foreign currency forward contracts, at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized

periodically through the statement of earnings or through stockholders' equity as a component of accumulated other comprehensive income or loss. The classification depends on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives designated as fair value hedges are matched in the statement of earnings against the respective gain or loss relating to the hedged items. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in accumulated other comprehensive income net of deferred taxes. Changes in fair values of derivatives not qualifying as hedges are currently reported in earnings. The implementation of this standard did not have any impact on the company's financial statements.

During April 2001, the Emerging Issues Task Force ("EITF") issued EITF No. 00-14, Accounting for Certain Sales Incentives, and EITF No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including A Reseller of the Vendor's Products), which are effective for the first quarter beginning after December 15, 2001. These EITF's prescribe guidance regarding the timing of recognition and income statement classification of costs incurred for certain sales incentive programs to retailers and end consumers. The Company expects that the adoption of EITF No. 00-14 and EITF No. 01-9 will not have a material impact on its financial position or results of operations.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), Business Combinations, and Statement of Financial Accounting Standards No. 142 ("SFAS 142"), Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method be used for all business combinations initiated after June 30, 2001. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized to earnings, but instead be reviewed for impairment in accordance with the provisions of SFAS 142. The amortization of goodwill and intangible assets with indefinite useful lives ceases upon adoption of SFAS 142 which is effective for fiscal years starting after December 15, 2001. The Company is in the process of quantifying the anticipated impact of adopting the provisions of SFAS 142, which is not expected to be material.

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS 144 supersedes Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that statement. The standard is effective for fiscal years beginning after December 15, 2001. The Company expects that the adoption of SFAS 144 will not have a material impact on its financial position or results of operations.

(2) PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows (in thousands):

	2000	2001
Land	$ 7,858	$ 12,358
Buildings and improvements	18,639	20,527
Furniture, fixtures and equipment	37,529	46,468
Leasehold improvements	21,029	35,765
Total property and equipment	85,055	115,118
Less accumulated depreciation and amortization	14,650	29,379
Property and equipment, net	$ 70,405	$ 85,739

(3) SHORT-TERM BORROWINGS

The Company has available a secured line of credit, as amended on July 11, 2001, permitting borrowings up to $150.0 million based upon eligible accounts receivable and inventories. Borrowings bear interest at the prime rate (4.75% at December 31, 2001) minus 0.50%, and the agreement expires on December 31, 2003. The agreement provides for the issuance of letters of credit up to a maximum of $30.0 million of which 50% decreases the amount available for borrowings under the agreement. Outstanding letters of credit at December 31, 2001 were $5.4 million. Available borrowings under the line of credit at December 31, 2001 were $54.2 million. The Company pays an unused line of credit fee of .25% annually. The agreement provides that stockholders' equity shall not decrease by more than 20% in any given calendar quarter, and limits the payment of dividends if it is in default of any provision of the agreement. The Company was in compliance with these covenants at December 31, 2001. In February 2002, the Company borrowed an additional $ 43.0 million under the line of credit.

(4) LONG-TERM BORROWINGS

Long-term debt at December 31, 2000 and 2001 is as follows (in thousands):

	2000	2001
Note payable to bank, due in monthly installments of $82.2 (includes principal and interest), fixed rate interest at 7.79%, secured by property, balloon payment of $8,716 due January 2011	$10,850	$10,716
Note payable to bank, due in monthly installments of $57.6 (includes principal and interest), fixed rate interest at 7.89%, secured by property, balloon payment of $6,776 due February 2011	7,850	7,782
Note payable to bank, due in monthly installments of $25 plus interest at prime (4.75% at December 31, 2001) plus 1%, secured by equipment, repaid during 2001	2,100	--
Capital lease obligation, due in aggregate monthly installments of $195, interest rate of 7.66%, secured by equipment, balloon payment of $4,431 due February 2006	12,661	11,367
Capital lease obligations, due in aggregate monthly installments of $74, interest rates from 7.25%-18.28%, secured by equipment, maturing in various installments through February 2006	2,106	1,891
	35,567	31,756
Less current installments	2,452	2,140
	$33,115	$29,616

The aggregate maturities of long-term borrowings at December 31, 2001 are as follows:

2002........	$ 2,140
2003........	2,596
2004........	2,552
2005........	2,342
2006........	5,005
Thereafter..	17,121
	$31,756

(5) STOCKHOLDERS' EQUITY

(a) Stock Issuances

Effective as of May 28, 1999, the Company was reincorporated in Delaware. The existing California corporation was merged into a newly formed Delaware corporation and each outstanding share of common stock of the existing California corporation was exchanged, for a share of $.001 par value Class B common stock of the new Delaware corporation. In addition, pursuant to the reincorporation merger, an approximate 13,907-for-1 common stock split was authorized.

The authorized capital stock of the Delaware corporation consists of 100,000,000 shares of Class A common stock, par value $.001 per share, and 60,000,000 shares of Class B common stock, par value $.001 per share. The Company has also authorized 10,000,000 shares of preferred stock, $.001 par value per share.

The Class A common stock and Class B common stock have identical rights other than with respect to voting, conversion and transfer. The Class A common stock is entitled to one vote per share, while the Class B common stock is entitled to ten votes per share on all matters submitted to a vote of stockholders. The shares of Class B common stock are convertible at any time at the option of the holder into shares of Class A common stock on a share-for-share basis. In addition, shares of Class B common stock will be automatically converted into a like number of shares of Class A common stock upon any transfer to any person or entity which is not a permitted transferee.

On June 9, 1999, the Company issued 7,000,000 shares of Class A common stock in an initial public offering and received net proceeds of $69,720,000.

During 2000 and 2001 certain Class B stockholders converted 3,008,704 and 3,323,300 shares of Class B common stock to Class A common stock, respectively.

(b) Stock Option Plan

In January 1998, the Board of Directors of the Company adopted the 1998 Stock Option, Deferred Stock and Restricted Stock Plan (Stock Option Plan) for the grant of qualified incentive stock options (ISO), stock options not qualified and deferred stock and restricted stock. The exercise price for any option granted may not be less than fair value (110% of fair value for ISOs granted to certain employees). In June 2001, the stockholders approved an amendment to the plan to increase the number of shares of Class A common stock authorized for issuance under the plan to 8,215,154. The options expire ten years from the date of grant.

Shares subject to option under the Stock Option Plan were as follows:

	SHARES	WEIGHTED OPTION PRICE
Outstanding at December 31, 1998	1,390,715	$ 2.78
Granted	1,209,636	11.00
Canceled	(84,777)	11.00
Outstanding at December 31, 1999	2,515,574	6.41
Granted	1,532,695	10.79
Exercised	(422,370)	3.55
Canceled	(136,998)	10.23
Outstanding at December 31, 2000	3,488,901	8.51
Granted	2,177,880	14.31
Exercised	(1,080,995)	7.10
Canceled	(87,628)	15.08
Outstanding at December 31, 2001	4,498,158	11.53
Options available for grant at December 31, 2001	2,215,631	

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING DECEMBER 31, 2001	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 2001	WEIGHTED AVERAGE EXERCISE PRICE

$ 2.78 to $ 6.13	742,556	6.7 years	$ 3.19	218,616	$ 3.08
$10.48 to $12.38	1,896,290	8.7 years	10.76	518,182	10.78
$13.00 to $15.75	1,541,312	8.7 years	14.05	446,208	13.41
$18.00 to $29.45	318,000	9.3 years	23.36	66,675	23.60
	4,498,158	8.4 years	$11.53	1,249,681	$ 11.06

At December 31, 1999, 2000 and 2001, the number of options exercisable for each year was 347,678, 862,111, and 1,249,681 respectively. The weighted-average exercise price of those options was $2.78, $7.87 and $11.06 respectively.

(c) Stock Purchase Plan

Effective July 1, 1998, the Company adopted the 1998 Employee Stock Purchase Plan (1998 Stock Purchase Plan). Under the terms of the 1998 Stock Purchase Plan, 2,781,415 shares of common stock are reserved for sale to employees at a price no less than 85% of the lower of the fair market value of the Class A common stock at the beginning of the one-year offering period or the end of each of the six-month purchase periods. During 2000 and 2001, 266,865 and 135,600 shares were issued under the 1998 Stock Purchase Plan for which the Company received $1,073,000 and $1,689,000, respectively.

(d) Stock Compensation

The Company accounts for stock compensation under SFAS No. 123, Accounting for Stock-Based Compensation, and has elected to measure compensation cost under Accounting Principles Board Opinion No. 25 and comply with the pro forma disclosure requirements of SFAS 123. Had compensation cost been determined using the fair value at the grant date for awards during 1999, 2000, and 2001 consistent with the provisions of SFAS No. 123, the Company's pro forma net earnings (in thousands) and earnings per share would have been reduced to the amounts as indicated below.

	1999	2000	2001
Pro forma net earnings	$ 19,077	$ 41,458	$ 42,281
Pro forma net earnings per share:			
Basic	$ .60	$ 1.18	$ 1.16
Diluted	.58	1.13	1.11

The fair value of each option is estimated on the date of grant. The Company used the minimum value method for stock awards prior to its initial public offering and the Black-Scholes option pricing models for stock awards afterwards. The following weighted-average assumptions used for grants were as follows:

	1999	2000	2001
Dividend yield	--	--	--
Expected volatility	55%	70%	80%
Risk-free interest rate	6.2%	6.3%	4.2%
Expected life of option	5	5	5

The weighted-average fair value of options granted during 1999, 2000, and 2001 were $6.93, $6.83, and $9.55, respectively.

(6) INCOME TAXES

The pro forma unaudited income tax adjustments for 1999 represent taxes, which would have been reported assuming the Company had been subject to federal and state income taxes as a C Corporation the entire year. The actual and pro forma provisions for income tax expense were as follows (in thousands):

	1999	2000	2001
Actual income taxes:			
Federal:			
Current..............................	$ 8,012	$ 25,420	$ 24,134
Deferred.............................	(792)	(1,360)	16
Total federal..................	7,220	24,060	24,150
State:			
Current..............................	1,480	4,784	4,627
Deferred.............................	(65)	(244)	(406)
Total state....................	1,415	4,540	4,221
Foreign:			
Current..............................	--	--	314
Deferred.............................	--	--	--
Total foreign..................	--	--	314

	1999	2000	2001
Total actual income taxes.......	8,635	28,600	28,685
Pro forma adjustments:			
Federal................................	3,533		
State..................................	712		
Total pro forma adjustments.....	4,245		
Total pro forma income taxes....	$ 12,880		

Income taxes (pro forma for 1999) differs from the statutory tax rate as applied to earnings before income taxes as follows:

	1999	2000	2001
Expected income tax expense............................	$ 11,569	$ 25,323	$ 26,584
State income tax, net of federal benefit...............	1,311	2,951	2,744
Rate differential on foreign income........................	--	--	(822)
Other..	--	326	179
Total provision for income taxes.............	$ 12,880	$ 28,600	$ 28,685

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2000 and 2001 are presented below:

DEFERRED TAX ASSETS:	2000	2001

Inventory adjustments	$ 1,176	$ 1,749
State taxes	1,490	--
Allowances for receivables	2,100	2,898
Other	1,060	1,379
Total deferred tax assets	5,826	6,026
Deferred tax liabilities:		
Depreciation of property and equipment	1,386	1,222
Other	26	--
Total deferred tax liabilities	1,412	1,222
Net deferred tax assets	$ 4,414	$ 4,804

Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

Prior to June 7, 1999, the Company was treated for federal and state income tax purposes as an S Corporation under Subchapter S of the Internal Revenue Code and comparable state laws. As a result, the earnings of the Company through June 7, 1999 were included in the taxable income of the Company's stockholders for federal and state income tax purposes, and the Company was generally not subject to income tax on such earnings, other than California and other state franchise taxes.

In connection with the Company's initial public offering of its Class A common stock in June 1999, the Company terminated its S Corporation status and became a C Corporation subject to federal and state income taxes. The Company's change of status to a C Corporation resulted in the recording of deferred tax assets amounting to $1,800,000. This amount is reflected as a reduction of actual income tax expense in the accompanying 1999 consolidated statement of earnings.

Consolidated U.S. income before taxes was $32.7 million, $72.4 million, and $69.7 million for the years ended December 31, 1999, 2000, and 2001, respectively. The corresponding income (loss) before taxes for non U.S. based operations was $0, ($.1), and $6.3 million for the years ended December 31, 1999, 2000, and 2001, respectively.

The Company has not provided withholding and U.S. federal income taxes on approximately $6.2 million of undistributed earnings of its foreign subsidiaries because such earnings are or will be invested indefinitely in such subsidiaries or will be offset by approximate credits for foreign taxes paid. It is not practicable to determine the U.S. federal income tax liability, if any, that would be payable if such earnings were not reinvested indefinitely.

(7) BUSINESS AND CREDIT CONCENTRATIONS

The Company operates in the footwear industry and generates most of its sales in the United States, although it's products are sold into various foreign countries. The footwear industry is impacted by the general economy. Changes in the marketplace may significantly affect management's estimates and the Company's performance. Management performs regular evaluations concerning the ability of customers to satisfy their obligations and provides for estimated doubtful accounts. Domestic accounts receivable amounted to $87,825,000 and $102,543,000 before allowances for bad debts and returns at December 31, 2000 and 2001, respectively, which generally do not require collateral from customers. Foreign accounts receivable amounted to $13,955,000 and $24,855,000 before allowance for bad debts and returns at December 31, 2000 and 2001, respectively, which generally are collateralized by letters of credit. International net sales amounted to $43,900,000, $65,159,000 and $121,001,000 for the years ended December 31, 1999, 2000 and 2001, respectively. The Company's credit losses for the years ended December 31, 1999, 2000 and 2001

were $1,699,000, $537,000 and $1,459,000, respectively, and did not significantly differ from management's expectations.

Net sales to customers in the United States of America exceeded 87% of total net sales for each of the years in the three-year period ended December 31, 2001. Assets located outside of the United States of America consists primarily of cash, accounts receivable, inventory, property and equipment, and other assets and totaled $22,959,000 and $59,795,000, at December 31, 2000 and 2001, respectively.

During 1999, 2000 and 2001, no customer accounted for 10% or more of net sales. The Company had one customer which accounted for 15.3% of trade accounts receivable at December 31, 2000. At December 31, 2001, one customer accounted for 10.2% of trade accounts receivable.

During 1999, the Company had four manufacturers that accounted for between 12.3% and 15.5% each of total purchases. During 2000, the Company had four manufacturers that accounted for between 9.2% and 20.2% each of total purchases. During 2001, the company had four manufacturers that accounted for between 7.9% and 19.9%, each, of total purchases.

Substantially all of the Company's products are produced in China. The Company's operations are subject to the customary risks of doing business abroad, including, but not limited to, currency fluctuations, custom duties and related fees, various import controls and other monetary barriers, restrictions on the transfer of funds, labor unrest and strikes and, in certain parts of the world, political instability. The Company believes it has acted to reduce these risks by diversifying manufacturing among various factories. To date, these risk factors have not had a material adverse impact on the Company's operations.

(8) BENEFIT PLAN

The Company has adopted a profit sharing plan covering all employees who are 21 years of age and have completed one year of service. The plan was amended in April 2001 to allow employees to enter into the plan after six months of service. Employees may contribute up to 15.0% of annual compensation. Company contributions to the plan are discretionary and vest over a five-year period.

The Company's contributions to the plan amounted to $259,000, $500,000, and $703,000 for the years ended December 31, 1999, 2000 and 2001, respectively. As its contribution to the plan in 2001, the Company issued 48,072 shares of its Class A common stock. The shares contributed to the plan contain certain restrictions regarding the subsequent sales of those shares.

(9) COMMITMENTS AND CONTINGENCIES

(a) Leases

The Company leases facilities under operating lease agreements expiring through August 2012. The leases are on an all-net basis, whereby the Company pays taxes, maintenance and insurance. The Company also leases certain equipment and automobiles under operating lease agreements expiring at various dates through July 2005. Rent expense for the years ended December 31, 1999, 2000 and 2001 approximated $9,800,000, $13,200,000 and $18,014,000, respectively.

The Company also leases certain property and equipment under capital lease agreements requiring monthly installment payments through February 2006. The cost of this property and equipment was $16,154,000 with a net book value of $ 12,501,000 at December 31, 2001.

Future minimum lease payments under noncancellable leases at December 31, 2001 are as follows (in thousands):

	CAPITAL LEASES	OPERATING LEASES
Year ending December 31:		
2002	$ 3,118	$ 21,416
2003	2,909	20,818
2004	2,909	19,970
2005	2,571	19,976
2006	4,721	16,342
Thereafter	1	52,293
	$ 16,229	$150,815
Less imputed interest	2,971	
Present value of net minimum lease payments	$ 13,258	

The Company leases office space to unrelated third parties under noncancellable operating leases expiring through November 2004, annual rentals are approximately $311,000, $119,000 and $106,000 for the years ended December 31, 2002, 2003, and 2004, respectively.

(b) Litigation

In December 1999 and January 2000, the Company and two officers/directors were named as defendants in four purported class-action lawsuits. Two of the lawsuits also named the underwriters of the Company's initial public offering as defendants. All of the complaints seek damages and rescission on behalf of a class of persons who purchased securities in, or traceable to, the Company's initial public offering or thereafter on the open market prior to July 6, 1999. All four actions were subsequently consolidated into one matter and a consolidated complaint was filed on June 1, 2000. The consolidated complaint named as defendants the Company, two officers of the Company, and the underwriters of the Company's Offering. The class, as currently alleged in the consolidated complaint now on file, consists of all persons who purchased securities in, or traceable to, the Company's June 9, 1999 Offering or thereafter on the open market prior to June 15, 1999.

The court issued an order on June 20, 2001 dismissing the consolidated complaint in its entirety with leave to plaintiffs to amend. The class filed an amended complaint on August 3, 2001 and the Company filed a motion to dismiss the amended complaint. In response to the motion, and after discussions between class counsel and counsel for defendants, the class agreed to dismiss with prejudice the entire consolidated class action as to the Company, its two named officers and defendants and the underwriters. The class agreed to dismiss with prejudice without any settlement from defendants. Thus, the stipulation had no material impact on operations or financial results. A stipulation of dismissal with prejudice was executed by the parties in late December 2001. The court signed the stipulation without modification and entered the order of dismissal on January 30, 2002.

The Company is involved in other litigation arising from the ordinary course of business. Management does not believe that the disposition of these matters will have a material effect on the Company's financial position or results of operations.

(c) Purchase Commitments

At December 31, 2001, the Company had purchase commitments of approximately $89,353,000.

The Company finances production activities in part through the use of interest-bearing open purchase arrangements with certain of its Asian manufacturers. These arrangements currently bear interest at rates between 0.5% and 1.5% per 30 to 60 day term. The amounts outstanding under these arrangements at December 31, 2000 and 2001 were $48,484,000 and $49,255,000, respectively, which are included in accounts payable in the accompanying consolidated balance

sheets. Interest expense incurred by the Company under these arrangements amounted to $3,000,000 in 1999, $6,400,000 in 2000 and $5,900,000 in 2001.

(d) Compensation

Certain officers and key employees of the company are entitled to incentive bonuses under employment contracts. The bonuses are based on Company performance.

(10) SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized unaudited financial data are as follows (in thousands):

2000	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Net sales	$ 133,344	$ 163,899	$ 205,749	$ 172,044
Gross profit	53,634	69,137	86,911	74,543
Net earnings	6,734	12,010	15,286	9,721
Net earnings per share:				
Basic	$ .19	$ .34	$ .43	$ .27
Diluted	.19	.33	.40	.26

2001	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Net sales	$ 227,494	$ 230,899	$ 287,900	$ 214,092
Gross profit	99,314	99,175	122,595	85,096
Net earnings	17,100	16,822	11,378	1,970
Net earnings per share:				
Basic	$ .48	$ .46	$ .31	$ .05
Diluted	.45	.44	.30	.05

SKECHERS U.S.A., INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 1999, 2000, AND 2001

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS AND WRITE-OFFS	BALANCE AT END OF PERIOD
As of December 31, 1999:				
Allowance for doubtful accounts	1,466,000	740,000	(1,699,000)	507,000
Reserve for sales returns and allowances	$ 1,947,000	$ 13,600,000	$ (12,817,000)	$ 2,730,000
As of December 31, 2000:				
Allowance for doubtful accounts	507,000	1,326,000	(537,000)	1,296,000
Reserve for sales returns and allowances	$ 2,730,000	$ 15,651,000	$ (14,525,000)	$ 3,856,000
As of December 31, 2001				
Allowance for chargebacks	--	3,618,000	--	3,618,000
Allowance for doubtful accounts	1,296,000	1,235,000	(1,459,000)	1,072,000
Reserve for sales returns and allowances	$ 3,856,000	$ 29,615,000	$ (31,048,000)	$ 2,423,000

EXHIBIT 10.18(a)

EXHIBIT "A"

ADDENDUM TO LEASE

FOR PREMISES COMMONLY KNOWN AND DESIGNATED AS:

OFFICES #7, 8, AND 9, SECOND FLOOR OF THE SOUTH BUILDING
904 MANHATTAN AVENUE,
MANHATTAN BEACH, CALIFORNIA

This Addendum to Lease executed on March _____, 2000, by and between DOLORES MCNABB, as Landlord, and SKECHERS U.S.A., Inc., a Delaware corporation, as Tenant, is an integral part of said Lease as if fully set forth therein.

A. OPTION TO EXTEND LEASE TERM.

So long as Tenant has fully performed all the obligations on its part to be performed, Landlord hereby grants to Tenant two (2) consecutive options to extend this lease for five (5) years each, on the same terms and conditions as are contained herein except as to increases in real estate taxes as hereinafter provided. It is contemplated that Tenant's occupancy shall be continuous; therefore, in the event Tenant fails to exercise any of the options granted herein, the remaining options shall immediately expire and be of no further force or effect. The parties specifically acknowledge that the Lease rent terms provide for annual increases of 3%. Such increases shall continue to be applied annually during each and every option exercised hereunder.

Tenant shall exercise each such option by delivering written notice to Landlord at least six (6) months, but not more that twelve (12) months, prior to the end of each five (5) year term. TIME IS OF THE ESSENCE IN REGARD TO THE DELIVERY OF THE NOTICE. In the event Tenant fails to deliver written notice as herein provided, the options granted herein shall expire and be of no further force or effect.

B. RENT.

Tenant shall pay to Landlord rent, free from all claims, demands or set-offs against Landlord of any kind or character whatsoever, except as otherwise expressly provided to the contrary, in advance, in the amount of $199,804.15, payable $3,800.00 on execution of this lease and thereafter on the first day of each month (except May 1, 2000) as follows:

June 1, 2000 to March 31, 2001	$3,800.00 per month
April 1, 2001 to March 31, 2002	$3,914.00 per month
April 1, 2002 to March 31, 2003	$4,031.42 per month
April 1, 2003 to March 31, 2004	$4,152.36 per month
April 1, 2004 to June 30, 2004	$4,276.93 per month

Landlord agrees that Tenant shall be given possession on April, 2000 to install such tenant improvements as it deems necessary and proper for its purposes, however, nothing in this paragraph shall eliminate the requirement that Tenant obtain Landlord's approval prior to making any such tenant improvements.

LATE PAYMENTS: In the event that Tenant shall fail to pay to landlord within 5 days of the date when due, any payment owing to Landlord pursuant to the terms of this Lease, Tenant shall pay Landlord a late charge in the amount of ten percent (10%) of the rent payment then due in addition to said rent.

SQUARE FOOTAGE DISCLAIMER: The parties hereto hereby acknowledge that during the negotiations for this Lease, the parties discussed the rent as a function of an amount per square feet of rentable space. Prior to the execution of this Lease, Tenant has had the opportunity to inspect the space and satisfy itself as to the size and suitability of the space for its intended purposes. The parties hereto hereby agree the above dollar figures of rent shall be due and payable regardless of the actual square feet in the demised premises and Tenant acknowledges that Landlord makes no representation or warranty as to the actual size of the premises. Any discussions concerning a rental per square foot of space is superceded by this provision.

C. USE.

The sole permitted use of the premised shall be commercial office and related activities.

D. REAL ESTATE TAXES-OPTION PERIODS

Upon the exercise of the options hereinabove provided for, Tenant agrees to pay during the term of each such option period, or periods, as the case may be, its pro rata share of any increase in real estate taxes and assessments levied or imposed against the real property of which the demised premises are a part over an above the taxes imposed on said real property during the fifth year of the original term of this Lease (the base year). The parties hereto acknowledge and agree that Tenant occupies approximately 20% of the building and agree that for purposes of this provision that Tenant shall pay 20% of any such increase. Landlord shall provide Tenant with a copy of the tax bill for the fiscal year July 2003- June 2004 (the base year) of the initial term along with a copy of the tax bill for each year during any option period that Tenant continues in possession under this Lease. Tenant shall pay to Landlord one half of its pro rata share (20%) of such increase on or before December 10 of each year and the remaining on half of its pro rata share (20%) on or before April 10 of each year.

E. AIR CONDITIONING REPAIR AND MAINTENANCE.

Landlord has provided an air conditioner in good working condition that services Officers 7, 8 and 9 on the second floor of the south building. Tenant hereby agrees that it will pay any and all costs related to the repair and maintenance of said air conditioner.

F. SECURITY DEPOSIT

Tenant shall pay Landlord on execution of this Lease the sum of $4,000.00 as a security deposit in accordance with the provisions of Paragraph 19 of the lease.

G. PARKING

Landlord hereby grants to Tenant the exclusive use of one (1) parking space, the location of which will be designated by Landlord.

H. RULES AND REGULATIONS

The Rules and regulations attached hereto and hereby incorporated by this reference as if fully set forth herein and shall be an integral part of this Lease.

I. ASSIGNMENT

Notwithstanding the provisions of Paragraph 11 of the Lease, no consent from Landlord shall be required for the assignment of this Lease under the following circumstances, each of which shall be considered a Permitted Assignment:

(1) the transfer of stock of Tenant to members of the immediate family of a shareholder of Tenant, to a living trust for estate-planning purposes, or by will or intestacy, or,

(2) Tenant sells or offers for sale its voting stock to the public in accordance with the qualifications or registration requirements of the State of California and the Security Act of 1933, as amended.

H. TENANT'S RIGHT TO TERMINATE IN THE EVENT OF DESTRUCTION OF THE PREMISES

Notwithstanding the provisions of Paragraph 16. DESTRUCTION OF PREMISES of the Lease, in the event Landlord cannot complete the repairs and return possession to Tenant within a period of six (6) months, Tenant shall have the option of terminating this Lease. Notice of such election to terminate shall be given by Tenant to landlord within ten (10) days of Tenant's receipt of written notice from Landlord that the repair period is projected to exceed (6) months. In the event Tenant fails to so notify Landlord in writing, this right to terminate shall expire.

I. MUTUAL INDEMNIFICATION

Tenant Agrees to defend, with counsel reasonably satisfactory to Landlord, indemnify and hold harmless, Landlord, its agents, employees, officers, directors, shareholders, partners, members and representatives (collectively "Landlord") from and against any and all loss, cost, action liability, damage or expense, including but not limited to, penalties, fines, attorneys' fees or costs (collectively "claims"), to any person, property or entity resulting from the following: (i) the negligence or wilful misconduct of Tenant, its agents, employees or contractors; (ii) Tenant's default or breach of any of the terms and conditions of this Lease; and (iii) any occurrences within the Premises, not resulting from the negligence or wilful misconduct of Landlord, its agents, employees or contractors.

Landlord agrees to defend with counsel reasonably satisfactory to Tenant, indemnify and hold harmless, Tenant, its agents, employees, officers, directors, shareholders, partners, members and representatives (collectively "Tenant") from and against any and all loss, costs, action,

liability, damage or expense, including but not limited to, penalties, fines, attorneys' fees or costs (collectively "claims"), to any person, property or entity resulting from the following: (i) the negligence or wilful misconduct of Landlord, its agents, employees or contractors; (ii) Landlord's default or breach of any of the terms and conditions of this Lease; and (iii) any occurrences within the Premises, not resulting from the negligence or wilful misconduct of Tenant its agents, employees or contractors.

Notwithstanding the foregoing, however, because Landlord is required to maintain property insurance on the Building, and because of the existence of waivers of subrogation set forth in this Lease, Landlord hereby agrees to defend, indemnify and hold Tenant harmless on any Claims to the extent such claim is covered by such insurance, even if resulting from the negligent acts, omissions or misconduct of Tenant or those of its agents, employees or contractors. Similarly, since Tenant must carry insurance to cover its personal property within the premises, and because of the waivers of subrogation set forth in this Lease, Tenant hereby agrees to defend, indemnify and hold Landlord harmless from any claims to the extent any such claim is covered by such insurance, if resulting from the negligent acts, omissions or misconduct of Landlord or those of its agents, employees or contractors. The provisions of this section shall survive the expiration or sooner termination of the Lease with respect to any occurrences, claims or liabilities occurring prior to such expiration or termination.

LANDLORD	TENANT
DOLORES MC NABB	SKECHERS USA, INC., a Delaware corporation
Delores L. Mc Nabb ---------------------------	by /s/ Michael Greenberg -------------------------
Date April 15 , 2000	by Michael Greenberg -------------------------
	Date 4/14 , 2000

EXHIBIT 10.27

[LOGO]

AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE -- NET
(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

1. BASIC PROVISIONS ("BASIC PROVISIONS").

1.1 PARTIES: This Lease ("LEASE"), dated for reference purposes only April 28, 2000, is made by and between MANHATTAN CORNERS, LLC, A California Limited Liability Company ("LESSOR") and SKECHERS U.S.A., INC., A Delaware Corporation ("LESSEE"), (collectively the "PARTIES," or individually a "PARTY").

1.2 PREMISES: That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as 1100 Highland Avenue, Manhattan Beach, located in the County of Los Angeles, State of California, and generally described as (describe briefly the nature of the property and, if applicable, the "PROJECT", if the property is located within a Project) 3200 square foot office building ("PREMISES"). (See also Paragraph 2)

1.3 TERM: Five (5) years and 0 months ("ORIGINAL TERM") commencing See Addendum Paragraph 51 ("COMMENCEMENT DATE") and ending _________ ("EXPIRATION DATE"). (See also Paragraph 3) Subject to one (1) option to extend - See Addendum Paragraph 66

1.4 EARLY POSSESSION: See Addendum Paragraph 51 ("EARLY POSSESSION DATE"). (See also Paragraphs 3.2 and 3.3)

1.5 BASE RENT: $9,600.00 per month ("BASE RENT"), payable on the 1st day of each month commencing ____. (See also Paragraph 4)

[x] If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted.

1.6 BASE RENT PAID UPON EXECUTION: $None as Base Rent for the period ____.

1.7 SECURITY DEPOSIT: $5,000.00 payable upon execution of this Lease ("SECURITY DEPOSIT"). (See also Paragraph 5)

1.8 AGREED USE: general office and no other use or purpose (See also Paragraph 6)

1.9 INSURING PARTY: Lessor is the "INSURING PARTY" unless otherwise stated herein. (See also Paragraph 8)

1.10 REAL ESTATE BROKERS: (See also Paragraph 15)

(a) REPRESENTATION: The following real estate brokers (collectively, the "BROKERS") and brokerage relationships exist in this transaction (check applicable boxes):

[ ] Not Applicable represents Lessor exclusively ("LESSOR'S BROKER");

[ ] Not Applicable represents Lessee exclusively ("LESSEE'S BROKER"); or

[ ] Not Applicable represents both Lessor and Lessee ("DUAL AGENCY").

1.12 ADDENDA AND EXHIBITS. Attached hereto is an Addendum or Addenda consisting of Paragraphs 50 through 69 and Exhibits ____________________ _________________________________, all of which constitute a part of this Lease.

2. PREMISES.

2.1 LETTING. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating rental, is an approximation which the Parties agree is reasonable and the rental based thereon is not subject to revision whether or not the actual size is more or less.

2.2 CONDITION. Lessor shall deliver the Premises to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("START DATE"), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by

Initials________

Lessee within thirty (30) days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and all other such elements in the Premises, other than those constructed by Lessee, shall be in good operating condition on said date and that the structural elements of the roof, bearing walls and foundation of any buildings on the Premises (the "BUILDING") shall be free of material defects. If a non-compliance with said warranty exists as of the Start Date, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If, after the Start Date, Lessee does not give Lessor written notice of any non-compliance with this warranty within: (i) one year as to the surface of the roof and the structural portions of the roof, foundations and bearing walls, (ii) six (6) months as to the HVAC systems, (iii) (6) months as to the remaining systems and other elements of the Building, correction of such non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 COMPLIANCE. Lessor warrants that the improvements on the Premises comply with all applicable laws, covenants or restrictions of record, building codes, regulations and ordinances ("APPLICABLE REQUIREMENTS") in effect on the Start Date. Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. NOTE: Lessee is responsible for determining whether or not the zoning is appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within six (6) months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed (as opposed to being in existence at the Start Date, which is addressed in Paragraph 6.2(e) below) so as to require during the term of this Lease the construction of an addition to or an alteration of the Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Building ("CAPITAL EXPENDITURE"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last two (2) years of this Lease and the cost thereof exceeds six (6) months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within ten (10) days after

receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to six (6) months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least ninety (90) days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for such costs pursuant to the provisions of Paragraph 7.1(c); provided, however, that if such Capital Expenditure is required during the last two years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon ninety (90) days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within ten (10) days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with Interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon thirty (30) days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall be fully responsible for the cost thereof, and Lessee shall not have any right to terminate this Lease.

2.4 ACKNOWLEDGEMENTS. Lessee acknowledges that: (a) it has been advised by Lessor to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements), and their suitability for Lessee's intended use; (b) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises; and (c) neither Lessor, Lessor's agents, nor any Broker has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (a) Broker has made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises; and (b) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

3. TERM.

3.1 TERM. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 EARLY POSSESSION. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease shall, however, be in effect during such period. Any such early possession shall not affect the Expiration Date.

3.3 DELAY IN POSSESSION. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until it receives possession of the Premises. If possession is not delivered within sixty (60)

days after the Commencement Date, Lessee may, at its option, by notice in writing within ten (10) days after the end of such sixty (60) day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said ten (10) day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the Start Date and Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee would otherwise have

enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not delivered by November 1, 2000, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 LESSEE COMPLIANCE. Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. RENT.

4.1. RENT DEFINED. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("RENT").

4.2 PAYMENT. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. Rent for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on said change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within fourteen (14) days after the expiration or termination of this Lease, if Lessor elects to apply the Security Deposit only to unpaid

Rent, and otherwise within thirty (30) days after the Premises have been vacated pursuant to Paragraph 7.4(c) below, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

6. USE.

6.1 USE. Lessee shall use and occupy the Premises only for the Agreed Use and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to neighboring properties.

6.2 HAZARDOUS SUBSTANCES.

(a) REPORTABLE USES REQUIRE CONSENT. The term "HAZARDOUS SUBSTANCE" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "REPORTABLE USE" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) DUTY TO INFORM LESSOR. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) LESSEE REMEDIATION. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous

Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) LESSEE INDEMNIFICATION. Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. NO TERMINATION, CANCELLATION OR RELEASE AGREEMENT ENTERED INTO BY LESSOR AND LESSEE SHALL RELEASE LESSEE FROM ITS OBLIGATIONS UNDER THIS LEASE WITH RESPECT TO HAZARDOUS SUBSTANCES, UNLESS SPECIFICALLY SO AGREED BY LESSOR IN WRITING AT THE TIME OF SUCH AGREEMENT.

(e) LESSOR INDEMNIFICATION. Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which existed as a result of Hazardous Substances on the Premises prior to the Start Date or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) INVESTIGATIONS AND REMEDIATIONS. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Start Date, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in Paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) LESSOR TERMINATION OPTION. If a Hazardous Substance Condition occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds twelve (12) times the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee, within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within ten (10) days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to twelve (12) times the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination.

6.3 LESSEE'S COMPLIANCE WITH APPLICABLE REQUIREMENTS. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the Premises, without regard to whether said requirements are now in effect or become effective after the Start Date. Lessee shall, within ten (10) days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements.

6.4 INSPECTION; COMPLIANCE. Lessor and Lessor's "Lender" (as defined in Paragraph 30 below) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a contamination is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspections, so long as such inspection is reasonably related to the violation or contamination.

7. MAINTENANCE; REPAIRS, UTILITY INSTALLATIONS; TRADE FIXTURES AND ALTERATIONS.

7.1 LESSEE'S OBLIGATIONS. See Addendum Paragraph 67

(a) IN GENERAL. Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations, and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, heating, ventilating, air-conditioning, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures, walls (interior ceilings, roofs, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Lessee shall, during the term of this Lease, keep the exterior appearance of the Building in a first-class condition consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Building.

(b) SERVICE CONTRACTS. Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment, (ii), (iii) fire extinguishing systems, including fire alarm and/or smoke detection, (iv) landscaping and irrigation systems, (v) roof covering and drains, (vi) driveways and parking lots, (vii) clarifiers (viii) basic utility feed to the perimeter of the Building, and (ix) any other equipment, if reasonably required by Lessor.

(c) REPLACEMENT. Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if the Basic Elements described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such Basic Elements, then such Basic Elements shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is the number of months of the useful life of such replacement as such useful life is specified pursuant to Federal income tax regulations or guidelines for depreciation thereof (including interest on the unamortized balance as is then commercially reasonable in the judgment of Lessor's accountants), with Lessee reserving the right to prepay its obligation at any time.

7.2 LESSOR'S OBLIGATIONS. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 9 (Damage or Destruction) 14 (Condemnation), and 67 (Maintenance by Lessor) it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of the Lessee. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 UTILITY INSTALLATIONS; TRADE FIXTURES; ALTERATIONS.

(a) DEFINITIONS; CONSENT REQUIRED. The term "UTILITY INSTALLATIONS" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "TRADE FIXTURES" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "ALTERATIONS" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "LESSEE OWNED ALTERATIONS AND/OR UTILITY INSTALLATIONS" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during this Lease as extended does not exceed $50,000 in the aggregate or $10,000 in any one year.

(b) CONSENT. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount equal to the greater of one month's Base Rent, or $10,000.

(c) INDEMNIFICATION. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein.

Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to one and one-half times the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

7.4 OWNERSHIP; REMOVAL; SURRENDER; AND RESTORATION.

(a) OWNERSHIP. Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per Paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) REMOVAL. By delivery to Lessee of written notice from Lessor not earlier than ninety (90) and not later than thirty (30) days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) SURRENDER/RESTORATION. Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee Owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or groundwater contaminated by Lessee. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. INSURANCE; INDEMNITY.

8.1 PAYMENT FOR INSURANCE. Lessee shall pay for all insurance required under Paragraph 8 except to the extent of the cost attributable to liability insurance carried by Lessor under Paragraph 8.2(b) in excess of $2,000,000 per occurrence. Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term. Payment shall be made by Lessee to Lessor within ten (10) days following receipt of an invoice.

8.2 LIABILITY INSURANCE.

(a) CARRIED BY LESSEE. Lessee shall obtain and keep in force a Commercial General Liability Policy of Insurance protecting Lessee and

Lessor against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the

Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $2,000,000 per occurrence with an "ADDITIONAL INSURED -- MANAGERS OR LESSORS OF PREMISES ENDORSEMENT" and contain the "AMENDMENT OF THE POLLUTION EXCLUSION ENDORSEMENT" for damage caused by heat, smoke or fumes from a hostile fire. The Policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) CARRIED BY LESSOR. Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 PROPERTY INSURANCE -- BUILDING, IMPROVEMENTS AND RENTAL VALUE.

(a) BUILDING AND IMPROVEMENTS. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor, any ground lessor, and to any Lender(s) insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lenders, but in no event more than the commercially reasonable and available insurable value thereof. If Lessor is the Insuring Party, however, Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee under Paragraph 8.4 rather than by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence, and Lessee shall be liable for such deductible amount in the event of an Insured Loss.

(b) RENTAL VALUE. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one (1) year. Said insurance shall provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of Rent from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next twelve (12) month period. Lessee shall be liable for any deductible amount in the event of such loss.

(c) ADJACENT PREMISES. If the Premises are part of a larger building, or of a group of buildings owned by Lessor which are adjacent to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

8.4 LESSEE'S PROPERTY/BUSINESS INTERRUPTION INSURANCE.

(a) PROPERTY DAMAGE. Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned

Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) BUSINESS INTERRUPTION. Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) NO REPRESENTATION OF ADEQUATE COVERAGE. Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 INSURANCE POLICIES. Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 WAIVER OF SUBROGATION. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 INDEMNITY. Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified. Notwithstanding anything to the contrary in this Lease, Lessor shall indemnify, protect, defend and hold harmless Lessee and Lessee's employees, officers, agents, directors, and shareholders, and the

successors and assigns of each of the foregoing, against and from any and all claims, demands, losses, liabilities, damages, costs, and expenses

(including, without limitation, attorneys' and consultants' fees and the costs and expenses of defense) arising or resulting from (i) Lessor's breach of any covenant, representation or warranty under this Lease; or (ii) Lessor's or Lessor's agents' or employees' active negligence or wilful misconduct. The mutual indemnity obligations of Lessor and Lessee under this Lease shall not, however, release the respective insurers of Lessor and Lessee from such insurers' obligations under any policies covering their respective insureds.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "PREMISES PARTIAL DAMAGE" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) "PREMISES TOTAL DESTRUCTION" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) "INSURED LOSS" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "REPLACEMENT COST" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) "HAZARDOUS SUBSTANCE CONDITION" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 PARTIAL DAMAGE -- INSURED LOSS. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the

Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or have this Lease terminate thirty (30) days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 PARTIAL DAMAGE -- UNINSURED LOSS. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective sixty (60) days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within ten (10) days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

9.4 TOTAL DESTRUCTION. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate sixty (60) days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 DAMAGE NEAR END OF TERM. If at any time during the last six (6) months of this Lease there is damage for which the cost to repair exceeds one (1) month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving a written termination notice to Lessee within thirty (30) days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the

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date upon which such option expires. If Lessee duly exercises such option during

such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) ABATEMENT. In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) REMEDIES. If Lessor shall be obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within thirty (30) days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within said thirty (30) days, this Lease shall continue in full force and effect. "COMMENCE" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

9.8 WAIVE STATUTES. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. REAL PROPERTY TAXES.

10.1 DEFINITION OF "REAL PROPERTY TAXES." As used herein, the term "REAL PROPERTY TAXES" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Building address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located. The term "REAL PROPERTY TAXES" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Premises.

10.2

(a) PAYMENT OF TAXES. Lessee shall pay the Real Property Taxes applicable to the Premises during the term of this Lease. Subject to Paragraph 10.2(b), all such payments shall be made at least ten (10) days prior to any delinquency date. Lessee shall promptly furnish Lessor with satisfactory

evidence that such taxes have been paid. If any such taxes shall cover any period of time prior to or after the expiration or termination of this Lease, Lessee's share of such taxes shall be prorated to cover only that portion of the tax bill applicable to the period that this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment. If Lessee shall fail to pay any required Real Property Taxes, Lessor shall have the right to pay the same, and Lessee shall reimburse Lessor therefor upon demand.

(b) ADVANCE PAYMENT. In the event Lessee incurs a late charge on any Rent payment, Lessor may, at Lessor's option, estimate the current Real Property Taxes, and require that such taxes be paid in advance to Lessor by Lessee, either: (i) in a lump sum amount equal to the installment due, at least twenty (20) days prior to the applicable delinquency date, or (ii) monthly in advance with the payment of the Base Rent. If Lessor elects to require payment monthly in advance, the monthly payment shall be an amount equal to the amount of the estimated installment of taxes divided by the number of months remaining before the month in which said installment becomes delinquent. When the actual amount of the applicable tax bill is known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the applicable taxes. If the amount collected by Lessor is insufficient to pay such Real Property Taxes when due, Lessee shall pay Lessor, upon demand, such additional sums as are necessary to pay such obligations. All monies paid to Lessor under this Paragraph may be intermingled with other monies of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of its obligations under this Lease, then any balance of funds paid to Lessor under the provisions of this Paragraph may, at the option of Lessor, be treated as an additional Security Deposit.

10.3 JOINT ASSESSMENT. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be conclusively determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available.

10.4 PERSONAL PROPERTY TAXES. Lessee shall pay, prior to delinquency, all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee. When possible, Lessee shall cause such property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion, to be determined by Lessor, of all charges jointly metered. Notwithstanding anything to the contrary contained in Paragraph 11 of this Lease, in the event of an interruption of building utilities or essential services provided to the building, or if the Lessee's occupancy is otherwise prevented for a period of excess of five (5) days, Lessee's Rent shall be abated from the date of interruption to the extent covered by any Rental Loss insurance coverage maintained by Lessor.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "ASSIGN OR ASSIGNMENT") or

sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent, which shall not be reasonable withheld.

(b) A change in the control of Lessee shall constitute an assignment requiring consent.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than twenty-five percent (25%) of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "NET WORTH OF LESSEE" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.

(d) An assignment or subletting without consent shall, be a Default curable after notice per Paragraph 13.1(c).

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2 TERMS AND CONDITIONS APPLICABLE TO ASSIGNMENT AND SUBLETTING.

(a) Regardless of Lessor's consent, any assignment or subletting shall not: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease; (ii) release Lessee of any obligations hereunder; or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of $1,000 or ten percent (10%) of the current monthly Base Rent applicable to the portion of the Premises which is the subject of the proposed assignment or sublease, whichever is greater, as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

12.3 ADDITIONAL TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. DEFAULT; BREACH; REMEDIES.

13.1 DEFAULT; BREACH. A "DEFAULT" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or rules under this Lease. A "BREACH" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to

minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of ten (10) days following written notice to Lessee.

(c) The failure by Lessee to provide (i) reasonable written

evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) a Tenancy Statement, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, other than those described in subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "DEBTOR" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this subparagraph 13.1 (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(f) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

13.2 REMEDIES. If Lessee fails to perform any of its affirmative duties or obligations, within ten (10) days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of

the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions.

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a one-time late charge equal to six percent (6%) of each such overdue amount. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder.

13.5 INTEREST. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within thirty (30) days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the thirty-first (31st) day after it was due as to non-scheduled payments. The interest ("Interest") charged shall be equal to the prime rate reported in the Wall Street Journal as published closest prior to the date when due plus four percent (4%), but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 BREACH BY LESSOR.

(a) NOTICE OF BREACH. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of

Lessor's obligation is such that more than thirty (30) days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

(b) PERFORMANCE BY LESSEE ON BEHALF OF LESSOR. In the event that neither Lessor nor Lender cures said breach within thirty (30) days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent an amount equal to the greater of one month's Base Rent or the Security Deposit, and to pay an excess of such expense under protest, reserving Lessee's right to reimbursement from Lessor. Lessee shall document the cost of said cure and supply said documentation to Lessor.

14. CONDEMNATION. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "CONDEMNATION"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of any building portion of the Premises, or more than twenty-five percent (25%) of the land area portion of the Premises not occupied by any building, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15.

16. ESTOPPEL CERTIFICATES.

(a) Each Party (as "RESPONDING PARTY") shall within ten (10) days after written notice from the other Party (the "REQUESTING PARTY") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "ESTOPPEL CERTIFICATE" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such ten day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting

Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's Rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including, but not limited to, Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. DEFINITION OF LESSOR. The term "LESSOR" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, and subject to the provisions of Paragraph 20 below, the original Lessor under this Lease, and all subsequent holders of the Lessor's interest in this Lease shall remain liable and responsible with regard to the potential duties and liabilities of Lessor pertaining to Hazardous Substances as outlined in Paragraph 6 above.

18. SEVERABILITY. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. DAYS. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. LIMITATION ON LIABILITY. Subject to the provisions of Paragraph 17 above, the obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, the individual partners of Lessor or its or their individual partners, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against the individual partners of Lessor, or its or their individual partners, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. TIME OF ESSENCE. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. NO PRIOR OR OTHER AGREEMENTS; BROKER DISCLAIMER. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises.

23. NOTICES.

23.1 NOTICE REQUIREMENTS. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2 DATE OF NOTICE. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. WAIVERS. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of monies or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

26. NO RIGHT TO HOLDOVER. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to one hundred fifty percent (150%) of the Base Rent applicable during the month immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS; CONSTRUCTION OF AGREEMENT. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. BINDING EFFECT; CHOICE OF LAW. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be

governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. SUBORDINATION; ATTORNMENT; NON-DISTURBANCE.

30.1 SUBORDINATION. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "SECURITY DEVICE"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "Lessor's Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect

to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 ATTORNMENT. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor; or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 NON-DISTURBANCE. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "NON-DISTURBANCE AGREEMENT") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within sixty (60) days after the execution of this Lease, Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said sixty (60) days, then Lessee may, at Lessee's option, directly contact Lessor's lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 SELF-EXECUTING. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. ATTORNEYS' FEES. If any Party or Broker brings an action or proceeding involving the Premises to enforce the terms hereof or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "PREVAILING PARTY" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.

32. LESSOR'S ACCESS; SHOWING PREMISES; REPAIRS. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary. All such activities shall be without abatement of rent or liability to Lessee. Lessor may at any time place on the Premises any ordinary "FOR SALE" signs and Lessor may during the last six (6) months of the term hereof place on the Premises any ordinary "FOR LEASE" signs. Lessee may at any time place on or about the Premises any ordinary "FOR SUBLEASE" sign. In the event of an emergency, the determination of which shall require Lessor to be reasonable, Lessor shall use good faith efforts to provide Lessee with reasonable notice in such situation. In the event of any entry by Lessor onto the Premises, Lessor shall use in good faith efforts not to interfere with the conduct of Lessee's business.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. SIGNS. Except for ordinary "For Sublease" signs, Lessee shall not place any sign upon the Premises without Lessor's prior written consent, which shall not be unreasonably withheld. All signs must comply with all Applicable Requirements. See Addendum Section 68.

35. TERMINATION; MERGER. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within ten (10) days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. CONSENTS. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including, but not limited to, architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including, but not limited to, consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within ten (10) business days following such request.

38. QUIET POSSESSION. Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. OPTIONS.

39.1 DEFINITION. "OPTION" shall mean: (a) the right to extend the term of or renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 OPTIONS PERSONAL TO ORIGINAL LESSEE. Each Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple

Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given three (3) or more notices of separate Default, whether or not the Defaults are cured, during the twelve (12) month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term, (i) Lessee fails to pay Rent for a period of thirty (30) days after such Rent becomes due (without any necessity of Lessor to give notice thereof), (ii) Lessor gives to Lessee three (3) or more notices of separate Default during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. MULTIPLE BUILDINGS. If the Premises are a part of a group of buildings controlled by Lessor, Lessee agrees that it will observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, and care of said properties, including the care and cleanliness of the grounds and including the parking, loading and unloading of vehicles, and that Lessee will pay its fair share of common expenses incurred in connection therewith.

41. SECURITY MEASURES. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. RESERVATIONS. Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

44. AUTHORITY. If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within thirty (30) days after request, deliver to the other Party satisfactory evidence of such authority.

45. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten

or handwritten provisions.

46. OFFER. Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. AMENDMENTS. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. MULTIPLE PARTIES. If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

49. MEDIATION AND ARBITRATION OF DISPUTES. An Addendum requiring the Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease [ ] IS [X] IS NOT attached to this Lease.

50. See Addendum 50.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Manhattan Beach, California	Executed at: Manhattan Beach, California
on: ______________________	on: ______________________
By LESSOR:	By LESSEE:
MANHATTAN CORNERS, LLC	SKECHERS U.S.A., INC.

By: /s/ Kenneth R. Ziegler	By: /s/ Michael Greenberg
Name Printed: Kenneth R. Ziegler	Name Printed: Michael Greenberg
Title: General Manager	Title: President
By:	By: /s/ Michael Greenberg
Name Printed:	Name Printed: Michael Greenberg
Title:	Title: President
Address: 1104 Highland Avenue Suite K Manhattan Beach, CA 90266	Address: 228 Manhattan Beach Boulevard Suite 200 Manhattan Beach, CA 90266
Telephone: (310) 798-7192	Telephone: (310) 318-3100
Facsimile: ( )	Facsimile: ( )
Federal ID No.	Federal ID No.

NOTE: These forms are often modified to meet the changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 700 So. Flower Street, Suite 600, Los Angeles, California 90017. (213) 687-8777. Fax No. (213) 687-8616

ADDENDUM TO STANDARD INDUSTRIAL/COMMERCIAL
SINGLE-TENANT LEASE-NET
By and Between
MANHATTAN CORNERS, LLC ("LESSOR") and
SKECHERS U.S.A., INC. ("LESSEE")

This Addendum is attached to and made a part of the STANDARD INDUSTRIAL/COMMERCIAL SINGLE TENANT LEASE-NET dated April 28, 2000, by and between the above-named Lessor and Lessee (the "Lease"). In the event of a conflict between any provision(s) contained in the Lease and any provision(s) contained in this Addendum, the provisions of this Addendum shall control.

50. PREMISES. Lessee acknowledges that it is familiar with the condition of the Premises, and, subject to the provisions of Sections 2.2 and 2.3, covenants and agrees to accept the Premises in its condition and state of repair "as is". This Lease confers upon Lessee no right either with regard to the subsurface of the land situated below the Premises or with regard to airspace above the top of the roof of the Premises. Within thirty (30) days following the delivery of possession of the Premises to Lessee, Lessee, at its sole cost and expense, may

cause Lessee's floor area to be measured by a licensed architect using B.O.M.A. standards. In the event that such calculation reflects a deviation from the square footage set forth herein, and Lessor does not dispute the calculation, the parties shall amend the Lease to reflect the recalculated floor area and to proportionally adjust the Base Rent to Three Dollars ($3.00) per square foot (subject to adjustments as provided herein). If Lessor disputes Lessee's recalculation by a licensed architect, then Lessor's architect and Lessee's architect shall appoint a third duly-licensed architect to measure the floor area in dispute. If the third architect's recalculation does not agree with either of the two prior calculations, then the floor area shall be determined to be the average of the middle measurement and the measurement closest to it. The cost of the third architect will be paid one-half (1/2) by Lessor and one-half (1/2) by Lessee.

51. COMMENCEMENT DATE/EARLY POSSESSION.

(a) COMMENCEMENT DATE. The term of this Lease shall commence on the date ("Commencement Date") which is seven (7) days after the date on which Lessor has delivered the Premises to Lessee substantially complete in accordance with the terms and provisions of Lessor's approved plans and specifications and for which Lessor shall have received all necessary building inspection approvals. The Premises shall be delivered to Lessee in "vanilla shell" condition, subject to the following: (i) not less than one ton of HVAC per 350 square feet of floor area; (ii) not less than 200 amp electrical panel with 42 breakers; and (iii) walls to be unpainted masonry or drywall over stud, taped, sanded and ready for paint. Lessor agrees to give Lessee a rent credit for the cost of purchase and installation of floor covering and light fixtures equal to $7,500.00. Lessor agrees to proceed with the completion of construction in a diligent manner, and to keep Lessee reasonably informed of its progress. If Lessor's work has not been substantially completed prior to November 1, 2000, then Lessee shall be entitled to terminate this Lease upon ten (10) days written notice and the opportunity to cure to Lessor, and to receive a refund of any and all amounts previously paid by Lessee to Lessor. Lessee shall have a period of thirty (30) days after receipt of possession to provide Lessor with a list ("punch-list") of any defective or incomplete items with respect to Lessor's work. Lessor will cure any items of defective or incomplete construction on the punch-list in a diligent manner, and if Lessor fails to do so, then following ten (10) days' written notice and the opportunity to cure, Lessee shall be entitled to complete the punch-list items at Lessor's expense.

(b) EARLY POSSESSION. Lessor will not unreasonably withhold consent to a request by Lessee for entry upon the Premises for purposes of inspections or tests or completing Lessee's approved alterations and improvements to the Premises, provided that Lessee's activities do not interfere with Lessor's construction activity. Any early possession by Lessee shall be subject to the provisions of Section 3.2 of the

Lease, and before being granted possession, Lessee shall furnish Lessor with a Certificate of Insurance as called for herein.

52. INSURANCE.

(a) INCREASES IN PREMIUMS. Lessee agrees that it will not keep, use, sell or offer for sale in or upon the Premises any article which may be prohibited by any insurance policy in force at any time during the term hereof covering the Premises. If Lessee's occupancy or conduct of business in the Premises, whether or not Lessor has consented to the same, results in any increase in premiums for the insurance carried from time to time by Lessor hereunder, Lessee shall pay any such increase in premiums within ten (10) days after being billed therefor by Lessor. In determining whether increased premiums are a result of Lessee's use or occupancy of the Premises, a schedule issued by the organization computing the insurance rate on the Premises showing the various components of such rate shall be conclusive evidence of the several items and charges which make up the rate. Lessee shall promptly comply with all

reasonable requirements of the insurance authority or of any insurer now or hereafter in effect relating to the Premises.

(b) CANCELLATION. If any insurance policy carried by Lessor hereunder shall be canceled or cancellation shall be threatened or the coverage thereunder reduced or threatened to be reduced in any way by reason of Lessee's use or occupation of any portion of the Premises, or by any assignee or sublessee of Lessee or by anyone permitted by Lessee to be upon the premises, and if Lessee fails to remedy the condition giving rise to such cancellation, threatened cancellation or reduction of coverage within 48 hours after notice thereof, Lessor may, at its option either terminate this Lease or enter upon the Premises and attempt to remedy such conditions and Lessee shall forthwith pay the cost thereof to the Lessor as additional rent. Lessor shall not be liable for any damage or injury caused to Lessee's personal property or any other property located in the Premises as a result of such entry. Whether or not Lessor shall be able to remedy such condition, it shall nonetheless constitute the event of a Default by Lessee. Notwithstanding the foregoing, Lessor shall have no obligation to remedy such Default.

(c) LIABILITY INSURANCE. The liability insurance policy limits and coverages set forth in paragraph 8 of this Lease may be increased by Lessor from time to time in such amounts as Lessor shall reasonably determine.

53. EXCESSIVE DAMAGE OR DESTRUCTION. If there is either "Premises Total Destruction" as defined in paragraph 9.1 (b) or if Lessor determines that it cannot, with reasonable diligence, fully repair or restore any partial damage to the Premises within two hundred seventy (270) days after the date of the damage or destruction, notwithstanding Lessee's exercise of any right to repair, Lessor may terminate this Lease. Lessor shall reasonable determine whether there is Premises Total Destruction or whether full repair or restoration can be made within the 270-day period, and Lessor's good faith determination shall be binding upon Lessee. Lessor shall notify Lessee of its determination, in writing, within forty-five (45) days after the date of the damage or destruction. If Lessor determines that the Premises can be fully repaired or restored within the 270-day period, or if it is determined that such repair or restoration cannot be made within said period or there is Premises Total Destruction but Lessor does not elect to terminate within forty-five (45) days from the date of said determination, this Lease shall remain in full force and effect and Lessor shall repair and restore the damage as soon as reasonably possible, subject to the provisions of Section 9. Provided that Lessee was not a cause of the destruction, in the event that there occurs Premises Total Destruction, Lessee may terminate the Lease upon written notice to Lessor no later than thirty (30) days after such Premises Total Destruction.

54. ASSIGNMENT AND SUBLETTING.

(a) BONUS RENTAL. If for any assignment or sublease, Lessee receives rent or other consideration, either initially or over the term of the assignment or sublease, in excess of the Base Rent called for hereunder, or in the event of the sublease or a portion of the Premises, in excess of such Base Rent fairly allocable to such portion (and actual out-of-pocket brokerage fees expended by Lessee in obtaining such assignment or sublease), Lessee shall pay to Lessor, monthly as additional rent hereunder, fifty percent (50%) of the excess of each such payment of rent or other consideration received by Lessee within ten (10) days after its receipt. For purposes of this paragraph 54, the term "rent or other consideration" shall include, without limitation, all monies or other consideration of any kind, if such sums are related to Lessee's interest in the Lease or in the Premises, including but not limited to bonus money, key money and similar payments.

(b) SCOPE. Unless Lessor requires an attornment in the event of a sublease pursuant to paragraph 12.3(b), at Lessor's option, any sublease shall terminate upon termination of the Lease due to Lessee's Breach and such

subtenant shall immediately vacate the Premises upon such termination. If Lessee's obligations under this Lease have been guaranteed by third parties, then at Lessor's option, a sublease, and Lessor's consent thereto, shall not be effective unless and until said guarantors give their written consent to such sublease and the terms thereof. Lessee immediately and irrevocably assigns to Lessor, as security for Lessee's obligations under this Lease, all rent from any subletting of all or part of the Premises as permitted by this Lease, and Lessor, as assignee and as attorney-in-fact for Lessee, or a receiver for Lessee appointed on Lessor's application, may collect such rent and apply it toward Lessee's obligations under this Lease; provided that, until the occurrence of an act of a Default by Lessee, Lessee shall have the right to collect such rent; and provided further that no such collection shall be construed to constitute a novation or release of Lessee from the further performance of Lessee's obligations hereunder.

55. LIABILITY OF LESSOR. Neither Lessor, Lessor's members, managers, employees, agents, any persons or entities comprising Lessor, nor any successor in interest to Lessor (or to such persons or entities) shall have any personal liability for any failure by Lessor to perform any term, covenant or condition of this Lease. If Lessor shall fail to perform any covenant, term or condition of this Lease upon Lessor's part to be performed, and if as a consequence of such default Lessee shall recover a money judgment against Lessor, such judgment shall be satisfied only out of the proceeds of sale received upon execution of such judgment and levied thereon against the right, title and interest of Lessor in the Building or out of the consideration received by Lessor from the sale or other disposition of all or any part of Lessor's right, title and interest in the Building, subject, nevertheless, to the rights of Lessor's mortgagee, and neither Lessor nor any of the parties or entities comprising Lessor herein shall be liable for any deficiency. The foregoing limitation of liability shall be noted in any judgment secured against Lessor and in the judgment index.

56. TRIPLE NET. This Lease is a triple net (net, net, net) Lease. In addition to Base Rent, as additional rent, Lessee shall also be responsible for and shall pay the insurance, maintenance and repair costs, property taxes, utilities and other costs associated with the Building, all as more fully set forth in this Lease.

57. PLATE GLASS INSURANCE. The property insurance required to be maintained by Lessee pursuant to paragraph 8.4 of this Lease shall include all-risk coverage of all plate glass on the Premises, with a deductible amount of no more than $250.00 per incident or loss. Lessee, at its own risk, may self-insure for such plate glass coverage.

58. ADDITIONAL RENT/PAYMENTS DUE. In addition to the monthly Base Rent, Lessee shall also pay as additional rent, without deduction or offset, all other charges, fees, costs, taxes, impositions, expenses and other sums required to be paid by Lessee under this Lease whether or not the same is designated as additional rent. Unless otherwise set forth in this Lease, any and all amounts required to be paid by Lessee

to Lessor, whether or not defined as additional rent, shall be due no later than the date that is ten (10) days following the date Lessor gives written notice to Lessee of the amount due. In the event of nonpayment of any additional rent or other sums when due, Lessor shall have all of the rights and remedies provided hereunder or by law for the nonpayment of Base Rent.

59. RENTAL ADJUSTMENT.

(a) On each anniversary of the Commencement Date of this Lease (the "Adjustment Date"), the monthly Base Rent payable by Lessee to Lessor for each of the succeeding twelve (12) months shall be increased, subject to subparagraph (e) below, by an amount equal to the increase, if any, of the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for All

Urban Consumers-All Items, Los Angeles-Anaheim-Riverside, California (1982-1984 = 100) (hereinafter referred to as "CPI") which occurred over the twelve (12) consecutive month period ending two (2) months prior to the respective Adjustment Date (the "CPI Period").

(b) The CPI increase, if applicable, shall be determined by multiplying the Base Rent amount for the month preceding the respective Adjustment Date by a fraction the numerator of which shall be the CPI for the calendar month two (2) months prior to the Adjustment Date and the denominator of which shall be the CPI for the same calendar month of the immediately preceding calendar year.

(c) In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then such conversion factor, formula or table selected by Lessor in good faith as may be published by any other nationally recognized publisher of similar statistical information shall be used.

(d) Lessor shall, as promptly as practical following publication of the relevant month's CPI each year, given notice to Lessee of the adjustment and increase in the monthly Base Rent as determined by Lessor pursuant to the provisions of this paragraph 59, and Lessor's computation thereof (absent mathematical error) shall be conclusive and binding.

(e) Notwithstanding the above provisions of this paragraph 59, the minimum increase in Base Rent on each Adjustment Date will be three percent (3%), and the maximum increase will be seven percent (7%).

(f) In the event that Lessee exercises its option to extend the term of the Lease, then the Base Rent during the first year of the Option Period will be determined according to the provisions of paragraph 66. Thereafter, each subsequent anniversary of the Commencement Date shall be an Adjustment Date, and the Base Rent shall be increased according to the same provisions as set forth in subparagraphs (a) through (e) above.

60. INTERRUPTION OF LESSEE'S BUSINESS. Lessor shall not be liable in any manner for the interruption of, or damage or injury to, Lessee or any of its sublessees, or its or their respective businesses on the Premises arising from, indirectly or directly relating to, or because of any construction, repair or maintenance work by Lessor.

61. NO BROKERS. Each party warrants and represents that there was no broker or agent representing it who was instrumental in consummating this Lease. Each party agrees to indemnify and hold the other party harmless against any claims for brokerage or other commissions arising by reason of a breach by the indemnifying party of this representation and warranty.

62. TRANSFER BY LESSOR. Lessor hereunder shall have the right to freely assign this Lease without the consent of Lessee.

63. NO PARTNERSHIP. Notwithstanding anything else to the contrary, Lessor shall not be deemed to be a partner of Lessee or a joint venturer with Lessee.

64. WAIVER OF COUNTERCLAIMS. Lessee shall not impose any counterclaim or counterclaims in a summary proceeding or other action based on termination or holdover, it being the intent of the parties hereto that Lessee be strictly limited in such instance to bringing a separate action in the court of appropriate jurisdiction. The foregoing waiver is a material inducement to Lessor making, executing and delivering this Lease and Lessee's waiver of its right to counterclaim in any summary proceeding or other action based on termination or holdover is done so knowingly, intelligently and voluntarily.

65. WAIVER OF JURY TRIAL. Lessor and Lessee hereby waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto

against the other on, or in respect of, any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Lessor and Lessee hereunder, Lessee's use or occupancy of the Premises and/or any claim of injury or damage.

66. OPTION TO EXTEND. Lessor hereby grants to Lessee the option to extend the term of this Lease for one (1) additional five (5) year period (the "Option Term"), commencing when the initial term of the Lease expires, upon each and all of the following terms and conditions:

(a) In order to exercise an option to extend, Lessee must give written notice by personal delivery or certified mail, return receipt requested, of such election to Lessor at least four (4) but not more than six (6) months prior to the date that the option period would commence, time being of the essence. If proper notification of the exercise of an option is not given and/or received, such option shall automatically expire.

(b) The provisions of paragraph 39, including those relating to Lessee's Default set forth in paragraph 39.4 of this Lease, are conditions of this option.

(c) Except for the provisions of this Lease granting an option or options to extend the term, all of the terms and conditions of this Lease except where specifically modified by this option shall apply.

(d) This option is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and without the intention of thereafter assigning or subletting.

(e) On the date that the Option Term commences (the "Market Rental Value Adjustment Date"), the Base Rent shall be adjusted to the "Market Rental Value" ("MRV") of the Premises as follows:

(i) In determining Market Rental Value, the parties will seek to establish the fair market rental value for the Premises, without consideration of new tenant inducements, broker commissions, or construction allowances.

(ii) Four (4) months prior to the Market Rental Value Adjustment Date, the parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached within thirty (30) days, then Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next thirty (30) days. Any associated costs will be split equally between the parties. If the parties are unable to agree upon either the MRV or on a single appraiser, then

Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:

a) Within fifteen (15) days thereafter, Lessor and Lessee shall each select a licensed appraiser or real estate broker actively engaged in business and with substantial experience in the Manhattan Beach commercial market ("Consultant") of their choice to act as an arbitrator. The two arbitrators so appointed shall immediately select a third mutually acceptable Consultant to act as a third arbitrator.

b) The three arbitrators shall within thirty (30) days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor's or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the parties.

c) If either of the parties fails to appoint an arbitrator within the specified fifteen (15) days, the arbitrator timely appointed by one of them shall reach a decision on his/her own, and said decision shall be binding on the parties.

d) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, i.e., the one that is NOT the closest to the actual MRV.

(iii) Notwithstanding the foregoing, the new MRV shall not be less than the rent payable for the month immediately preceding the rent adjustment.

67. Maintenance by Lessor. Except for damage caused by Lessee, its agents, employees or contractors (which shall be Lessee's sole responsibility), Lessor shall, at Lessor's sole expense, keep the exterior walls, (excluding storefronts, windows, doors, plate glass, window casements, and glazing) foundations and structural components of the roof in good order, condition and repair.

68. Signage. Subject to Lessee's obtaining all necessary governmental approvals therefor, Lessor will not unreasonably withhold its consent to Lessee's installation and maintenance of all signage permitted by the City of Manhattan Beach on the Premises. All such signage shall be installed and maintained at Lessee's sole cost and expense, and shall be designed, constructed and installed in a professional manner. Lessee shall have no right to place any signage upon the roof of the Premises.

69. General Rules of Construction.

(a) This Lease may be executed in several counterparts and the counterparts shall constitute one and the same instrument.

(b) Lessor may act under this Lease by its attorney or agent.

(c) Wherever a requirement is imposed on Lessee hereunder, Lessee shall be required to perform such requirement at its sole cost and expense unless it is specifically otherwise provided herein.

(d) (i) Wherever appropriate herein, the singular includes the plural and the plural includes the singular (ii) whenever the word "including" is used herein, it shall be deemed to mean "including, but not limited to"; (iii) the words "re-enter" and "re-entry" as used herein shall not be restricted to their technical legal meaning.

(e) Anything in this Lease to the contrary notwithstanding: (i) any provision hereof which permits or requires a party to take any particular action shall be deemed to permit or require, as the case may be,

such party to cause such action to be taken; and (ii) any provision hereof which requires any party not to take any particular action shall be deemed to require such party to prevent such action to be taken by any person or by operation of law.

The parties hereto have executed this Addendum as of the date of execution of the Lease.

By LESSOR:	By LESSEE:
MANHATTAN CORNERS, LLC	SKECHERS U.S.A., INC.

By: /s/ KENNETH R. ZIEGLER	By: /s/ [SIGNATURE UNINTELLIGIBLE]
KENNETH R. ZIEGLER, Managing Member	Its: President
	By: /s/ [SIGNATURE UNINTELLIGIBLE]
	Its: President

f.j.a.Manhattan Comers Sketchers Lease Addendum

EXHIBIT 10.28

[California Net Lease]

LEASE AGREEMENT

THIS LEASE AGREEMENT is made this 10th day of April, 2001, between ProLogis California I LLC, a Delaware limited liability company ("Landlord"), and the Tenant named below.

TENANT:	Skechers U.S.A., Inc., a Delaware corporation
TENANT'S REPRESENTATIVE, ADDRESS, AND PHONE NO.:	Paul Galliher 228 Manhattan Beach Blvd. Manhattan Beach, CA 90266
PREMISES:	That certain Building, containing approximately 763,228 rentable square feet, as determined by Landlord's architect, as shown on Exhibit A.
PROJECT:	Milliken Distribution Center #1
BUILDING:	Milliken Distribution Center #1 4100 E. Mission Blvd. Ontario, CA 91761
TENANT'S PROPORTIONATE SHARE OF PROJECT:	100.000%
TENANT'S PROPORTIONATE SHARE OF BUILDING:	100.000%
LEASE TERM:	Beginning on the Commencement Date and ending on the last day of the 120th full calendar month thereafter.
COMMENCEMENT DATE:	The day following the Rejection Date as defined in the Stipulation Regarding Rejection of Ontario Lease, Including Mutual Releases as described in Exhibit D attached hereto and pursuant to the provisions of Addendum 4
INITIAL MONTHLY BASE RENT:	See Addendum 1
INITIAL ESTIMATED MONTHLY OPERATING EXPENSE PAYMENTS: (estimates only and subject to adjustment to actual costs and expenses according to the provisions of this Lease)	1. Utilities: $0.00 2. Common Area Charges: $5,343.00 3. Taxes: $24,958.00 4. Insurance: $2,900.00 5. Others: Mgmt Fee $3,816.00
INITIAL ESTIMATED MONTHLY OPERATING EXPENSE PAYMENTS:	$37,017.00
INITIAL MONTHLY BASE RENT AND OPERATING EXPENSE PAYMENTS:	$254,537.00
SECURITY DEPOSIT:	$250,000.00
BROKER:	CB Richard Ellis, Lee & Associates

ADDENDA: 1. Base Rent Adjustments
2. Construction (Allowance)
3. Two Renewal Options (Baseball Arbitration)
4. Miscellaneous Provisions

EXHIBITS: A. Site Plan; B. Front Entrance Sign; C. Monument Sign; D. Name Sign; E. Stipulation Regarding Rejection of Ontario Lease, Including Mutual Releases

1. GRANTING CLAUSE. In consideration of the obligation of Tenant to pay rent as herein provided and in consideration of the other terms, covenants, and conditions hereof, Landlord leases to Tenant, and Tenant takes from Landlord, the Premises, to have and to hold for the Lease Term, subject to the terms, covenants and conditions of this Lease.

2. ACCEPTANCE OF PREMISES. Except as otherwise set forth in the Lease, Tenant shall accept the Premises in its condition as of the Commencement Date, subject to all applicable laws, ordinances, regulations, covenants and restrictions. Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of Tenant's business, and Tenant waives any implied warranty that the Premises are suitable for Tenant's intended purposes. Except as otherwise set forth in the Lease, in no event shall Landlord have any obligation for any defects in the Premises or any limitation on its use. The taking of possession of the Premises shall be conclusive evidence that Tenant accepts the Premises and that the Premises were in good condition at the time possession was taken except for items that are Landlord's responsibility under the Lease and any punchlist items agreed to in writing by Landlord and Tenant. Landlord, to its knowledge, represents and warrants that as of the Commencement Date (i) Landlord is unaware of any material defect or infirmity adversely affecting the Premises, (ii) Landlord is currently not the subject of any bankruptcy or insolvency proceeding, (iii) to Landlord's knowledge without further inquiry, the Premises shall be in compliance with all Legal Requirements (hereinafter defined) in effect as of the Commencement Date of this Lease, (iv) Landlord has fee simple title to the Premises

and Landlord has full power, right and authority to execute and perform this Lease and all corporate action necessary to do so has been duly taken, and (v) the zoning for the Premises is designated "planned industrial" by the Ontario General Plan under the Bridgestone/Firestone Industrial Park Specific Plan dated March, 1997, as revised May 14, 1997.

Landlord warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and all other such building and mechanical systems servicing the Premises, other than those constructed by Tenant, shall be in good operating condition on the Commencement Date, and that, subject to adverse weather conditions in which case the provisions of Paragraph 15 shall apply, the surface of the roof and structural elements of the roof, bearing walls and foundation of the Building shall be free of material defects on the Commencement Date. Landlord shall warrant the HVAC system for the first 90 days following the Commencement Date, and shall further warrant all other building and mechanical systems servicing the Premises for the first 30 days following the Commencement Date. Landlord shall be obligated for any and all repairs to such systems during such warranty periods at no cost to Tenant.

3. USE. The Premises shall be used only for the purpose of receiving, storing, packaging, shipping and selling (but limited to wholesale sales) products, materials and merchandise made and/or distributed by Tenant and for such other lawful purposes as may be incidental thereto; provided, however, with Landlord's prior written consent, Tenant may also use the Premises for light manufacturing. Tenant shall not conduct or give notice of any auction, liquidation, or going out of business sale on the Premises, without Landlord's prior written consent which shall not be unreasonably withheld or delayed. Tenant will use the Premises in a careful, safe and proper manner and will not

commit waste, overload the floor or structure of the Premises or subject the Premises to use that would damage the Premises. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise, or vibrations to emanate from the Premises, or take any other action that would constitute a nuisance or would disturb, unreasonably interfere with, or endanger Landlord or any tenants of the Project. For purposes of the preceding sentence, noise or vibrations from Tenant's material handling system shall not be considered "objectionable" by Landlord. Outside storage, including without limitation, storage of non-operable trucks and other non-operable vehicles, is prohibited without Landlord's prior written consent; provided, however, that subject to applicable Legal Requirements, Tenant shall be permitted to park trucks and trailers used in Tenant's business operations on and from the Premises overnight at the truck docks of the Premises and Tenant's customers shall be permitted to park their vehicles overnight from time to time in the parking areas of the Premises, provided such customer's vehicles and such trucks and trailers are at all times in operable condition and there is no interference with the ingress and egress of the Project, and provided, further, that subject to applicable Legal Requirements, Tenant may store pallets, corrugated packaging supplies and other similar shipping and storage supplies outside of the Premises in a fenced location as mutually agreed to by Landlord and Tenant, so long as such storage is conducted in a neat and orderly fashion. Except as otherwise set forth in the Lease, Tenant, at its sole expense, shall use and occupy the Premises in compliance with all laws, including, without limitation, the Americans With Disabilities Act, orders, judgments, ordinances, regulations, codes, directives, permits, licenses, covenants and restrictions now or hereafter applicable to the Premises (collectively, "Legal Requirements"). Tenant shall, at its expense, make any alterations or modifications, within or without the Premises, that are required by Legal Requirements related to Tenant's specific use or occupation of the Premises. Tenant will not use or permit the Premises to be used for any purpose or in any manner that would void Tenant's or Landlord's insurance, increase the insurance risk, or cause the disallowance of any sprinkler credits. If any increase in the cost of any insurance on the Premises or the Project is caused by Tenant's use or occupation of the Premises, or because Tenant vacates the Premises, then Tenant shall pay the amount of such increase to Landlord. Any occupation of the Premises by Tenant prior to the Commencement Date shall be subject to all obligations of Tenant under this Lease.

Notwithstanding anything contained herein to the contrary, Tenant's obligations hereunder shall relate only to the interior of the Premises and any changes to the Premises, the Building, or the Project that relate solely to the specific manner of use of the Premises by Tenant; and Landlord shall make all other additions to or modifications of the Project required from time to time by Legal Requirements. The cost of such additions or modifications made by Landlord shall be included in Operating Expenses pursuant to Paragraph 6 of this Lease, except for those additions or modifications which are Landlord's sole responsibility pursuant to the provisions of this Lease.

Landlord represents that the improvements constructed or installed by Landlord pursuant to the Construction Addendum attached to this Lease shall comply in all material respects with all applicable covenants or restrictions of record and all applicable laws, building codes, regulations and ordinances in effect on the Commencement Date of this Lease.

Notwithstanding anything contained herein to the contrary, Landlord shall make such modifications as may be required by order or directive of applicable governmental authority in order to bring the Building into compliance with applicable laws as of the Commencement Date without cost or expense to Tenant and without including such cost or expense as an Operating Expense. Any modifications made by Landlord that are required by applicable laws or regulations that become effective after the Commencement Date shall be included in Operating Expenses pursuant to Paragraph 6 of this Lease, except for those additions or modifications which are Landlord's sole responsibility pursuant to the provisions of this Lease, or that are required as a result of the Tenant's use of the Premises shall be chargeable to Tenant at its sole cost and expense pursuant to the provisions of this Lease.

4. BASE RENT. Tenant shall pay Base Rent in the amount set forth above. The first month's Base Rent and the first monthly installment of estimated Operating Expenses (as hereafter defined) shall be due and payable on the date hereof, and Tenant promises to pay to Landlord in advance, without demand, deduction or set-off, monthly installments of Base Rent on or before the first day of each calendar month succeeding the Commencement Date. Payments of Base Rent for any fractional calendar month shall be prorated. All payments required to be made by Tenant to Landlord hereunder shall be payable at such address as Landlord may specify from time to time by written notice delivered in accordance herewith. The obligation of Tenant to pay Base Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations. Tenant shall have no right at any time to abate, reduce, or set-off any rent due hereunder except as may be expressly provided in this Lease. If Tenant is delinquent in any monthly installment of Base Rent or of estimated Operating Expenses for more than 10 days, Tenant shall pay to Landlord on demand a late charge equal to 5 percent of such delinquent sum. The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as a penalty.

5. SECURITY DEPOSIT. The Security Deposit shall be due and payable on or before the Commencement Date of this Lease, and shall be held by Landlord as security for the performance of Tenant's obligations under this Lease. The Security Deposit is not an advance rental deposit or a measure of Landlord's damages in case of Tenant's default. Upon each occurrence of an Event of Default (hereinafter defined), Landlord may use all or part of the Security Deposit to pay delinquent payments due under this Lease, and the cost of any damage, injury, expense or liability caused by such Event of Default, without prejudice to any other remedy provided herein or provided by law. Tenant shall pay Landlord on demand the amount that will restore the Security Deposit to its original amount. Landlord's obligation respecting the Security Deposit is that of a debtor, not a trustee. If the Security Deposit is in the form of a cash sum payment, interest will accrue on the Security Deposit, for the benefit of the Tenant, at an annual rate equal to the savings account rate in effect at NationsBank N.A. as of the Commencement Date and adjusted annually, and such interest shall be paid to Tenant on an annual basis. The Security Deposit shall be the property of Landlord, but shall be paid to Tenant when Tenant's obligations under this Lease have been completely fulfilled. Landlord shall be released from any obligation with respect to the Security Deposit upon transfer of this Lease and the Premises to a person or entity assuming Landlord's obligations under this Paragraph 5.

6. OPERATING EXPENSE PAYMENTS. During each month of the Lease Term, on the same date that Base Rent is due, Tenant shall pay Landlord an amount equal to 1/12 of the annual cost, as estimated by Landlord from time to time, of Tenant's Proportionate Share (hereinafter defined) of Operating Expenses for the Project. Payments thereof for any fractional calendar month shall be prorated. The term "Operating Expenses" means all costs and expenses incurred by Landlord with respect to the ownership, maintenance, and operation of the Project including, but not limited to costs of: Taxes (hereinafter defined) and fees payable to tax consultants and attorneys for consultation and contesting taxes; insurance; utilities; maintenance, repair and replacement of all portions of the Project, including without limitation, paving and parking areas, roads, roofs (including the roof membrane), alleys, and driveways, mowing, landscaping, exterior painting, utility lines, heating, ventilation and air conditioning systems, lighting, electrical systems and other mechanical and building systems; amounts paid to contractors and subcontractors for work or services performed in connection with any of the foregoing; charges or assessments of any association to which the Project is subject; property management fees payable to a property manager, including any affiliate of Landlord calculated at $0.06 ps.f. per annum; security services, if any; trash collection, sweeping and removal; and additions or alterations made by Landlord to the Project or the Building in order to comply with Legal Requirements enacted after the Commencement Date (other than those expressly required herein to be made by Tenant or Landlord) or that are appropriate to the continued operation of the Project or the Building as a bulk warehouse facility in the market area. The cost of additions or alterations or repairs that are required to be capitalized for federal income

tax purposes shall be amortized on a straight line basis over a period equal to the useful life thereof for federal income tax purposes. Operating Expenses do not include costs, expenses, depreciation or amortization for capital repairs and capital replacements required to be made by Landlord under Paragraph 10 of this Lease, debt service under mortgages or ground rent under ground leases, costs of restoration to the extent of net insurance proceeds received by Landlord with respect thereto, leasing commissions, or the costs of renovating space for tenants. Further, Operating Expenses shall not mean or include: (i) costs incurred in connection with the construction or remodeling of the Project or any other improvements now or hereafter located thereon, correction of defects in design or construction; (ii) interest, principal, or other payments on account of any indebtedness that is secured by any encumbrance on any part of the Project, or rental or other payments under any ground lease, or any payments in the nature of returns on or of equity of any kind; (iii) costs of selling, syndicating, financing, mortgaging or hypothecating any part of or interest in the Project; (iv) taxes on the income of Landlord or Landlord's franchise taxes (unless any of said taxes are hereafter instituted by applicable taxing authorities in substitution for ad valorem real property taxes); (v) depreciation; (vi) Landlord's overhead costs, including equipment, supplies, accounting and legal fees, rent and other occupancy costs or any other costs associated with the operation or internal organization and function of Landlord as a business entity (but this provision does not prevent the payment of a management fee to Landlord as provided in this Paragraph 6); (vii) fees or other costs for professional services provided by space planners, architects, engineers, and other similar professional consultants, real estate commissions, and marketing and advertising expenses; (viii) costs of defending or prosecuting litigation with any party, unless a favorable judgment would reduce or avoid an increase in Operating Expenses, or unless the litigation is to enforce compliance with Rules and Regulations of the Project, or other standards or requirements for the general benefit of the tenants in the Project; (ix) costs incurred as a result of Landlord's violation or breach of this Lease or of any other lease, contract, law or ordinance, including fines and penalties; (x) late charges, interest or penalties of any kind for late or other improper payment of any public or private obligation, including ad valorem taxes; (xi) costs of removing Hazardous Materials or of correcting any other conditions in order

to comply with any environmental law or ordinance (but this exclusion shall not constitute a release by Landlord of Tenant for any such costs for which Tenant is liable pursuant to Paragraph 30 of this Lease); (xii) costs for which Landlord is reimbursed from any other source; (xiii) costs related to any building or land not included in the Project, including any allocation of costs incurred on a shared basis, such as centralized accounting costs, unless the allocation is made on a reasonable and consistent basis that fairly reflects the share of costs actually attributable to the Project; (xiv) the part of any costs or other sum paid to any affiliate of Landlord that may exceed the fair market price or cost generally payable for substantially similar goods or services in the area of the Project; (xv) bad debt expenses; (xvi) costs arising from Landlord's charitable or political contributions, if any; and (xvii) the cost of Landlord's compliance with the provisions of Paragraphs 2, 3, 10 and 15 hereof, or any other costs which are charged to Landlord and not to be borne by Tenant under the terms of the Lease.

Notwithstanding anything contained herein to the contrary, the property management fees payable to a property manager, including any affiliate of Landlord as set forth in this Paragraph 6 shall not exceed $0.06 p.s.f. per annum throughout the initial Lease Term.

Landlord shall provide Tenant within 90 days following the final day of the calendar year Landlord's itemized year-end common area maintenance reconciliation reports which reference and include all applicable Operating Expenses for such year. Upon Tenant's written request (which request shall be limited to once in a calendar year), Landlord shall provide photocopies of invoices, bills and other verification to substantiate such costs. If Tenant's total payments of Operating Expenses for any year are less than Tenant's

Proportionate Share of actual Operating Expenses for such year, then Tenant shall pay the difference to Landlord within 30 days after demand, and if more, then Landlord shall retain such excess and credit it against Tenant's next payments. For purposes of calculating Tenant's Proportionate Share of Operating Expenses, a year shall mean a calendar year except the first year, which shall begin on the Commencement Date, and the last year, which shall end on the expiration of this Lease. With respect to Operating Expenses which Landlord allocates to the entire Project, Tenant's "Proportionate Share" shall be the percentage set forth on the first page of this Lease as Tenant's Proportionate Share of the Project as reasonably adjusted by Landlord in the future for changes in the physical size of the Premises or the Project; and, with respect to Operating Expenses which Landlord allocates only to the Building, Tenant's "Proportionate Share" shall be the percentage set forth on the first page of this Lease as Tenant's Proportionate Share of the Building as reasonably adjusted by Landlord in the future for changes in the physical size of the Premises or the Building. Landlord may equitably increase Tenant's Proportionate Share for any item of expense or cost reimbursable by Tenant that relates to a repair, replacement, or service that benefits only the Premises or only a portion of the Project or Building that includes the Premises or that varies with occupancy or use. The estimated Operating Expenses for the Premises set forth on the first page of this Lease are only estimates, and Landlord makes no guaranty or warranty that such estimates will be accurate.

7. UTILITIES. Tenant shall pay for all water, gas, electricity, heat, light, power, telephone, sewer, sprinkler services, refuse and trash collection, and other utilities and services used on the Premises, all maintenance charges for utilities, and any storm sewer charges or other similar charges for utilities imposed by any governmental entity or utility provider, together with any taxes, penalties, surcharges or the like pertaining to Tenant's use of the Premises. All utilities shall be separately metered or charged directly to Tenant by the provider. No interruption or failure of utilities shall result in the termination of this Lease or the abatement of rent.

8. TAXES. Landlord shall pay all taxes, assessments and governmental charges (collectively referred to as "Taxes") that accrue against the Project during the Lease Term, which shall be included as part of the Operating Expenses charged to Tenant. Landlord may contest by appropriate legal proceedings the amount, validity, or application of any Taxes or liens thereof. If Landlord fails to contest the real estate taxes, Tenant shall have the right to request Landlord to contest such taxes, and Landlord shall so contest, at Tenant's sole cost and expense (including, without limitation, Landlord's reasonable attorneys' fees and reasonable fees payable to tax consultants and attorneys for consultation and contesting taxes) , if, in Landlord's reasonable judgment, such contest is warranted; provided, however, Tenant's request of such contesting of Taxes shall be limited to one request in a calendar year. Landlord shall cooperate in the institution and prosecution of any such proceedings of contesting taxes and will execute any documents reasonably required therefor. All reductions, refunds, or rebates of Taxes paid or payable by Tenant shall belong to Tenant whether as a consequence of a Tenant proceeding or otherwise. All capital levies or other taxes assessed or imposed on Landlord upon the rents payable to Landlord under this Lease and any franchise tax, any excise, transaction, sales or privilege tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents from the Premises and/or the Project or any portion thereof shall be paid by Tenant to Landlord monthly in estimated installments or upon demand, at the option of Landlord, as additional rent; provided, however, in no event shall Tenant be liable for any net income taxes imposed on Landlord unless such net income taxes are in substitution for any Taxes payable hereunder. If any such tax or excise is levied or assessed directly against Tenant, then Tenant shall be responsible for and shall pay the same at such times and in such manner as the taxing authority shall require. Tenant shall be liable for all taxes levied or assessed against any personal property or fixtures placed in the Premises, whether levied or assessed against Landlord or Tenant.

9. INSURANCE. Landlord shall maintain all risk property insurance covering the full replacement cost of the Building. Landlord may, but is not obligated to, maintain such other insurance and additional coverages as it may

deem necessary, including, but not limited to, commercial liability insurance and rent loss insurance. All such insurance shall be included as part of the Operating Expenses charged to Tenant. The Project or Building may be included in a blanket policy (in which case the cost of such insurance allocable to the Project or Building will be determined by Landlord based upon the insurer's cost calculations). Tenant shall also reimburse Landlord for any

increased premiums or additional insurance which Landlord reasonably deems necessary as a result of Tenant's use of the Premises.

Tenant, at its expense, shall maintain during the Lease Term: all risk property insurance covering the full replacement cost of all property and improvements installed or placed in the Premises by Tenant at Tenant's expense; worker's compensation insurance with no less than the minimum limits required by law; employer's liability insurance with such limits as required by law; and commercial liability insurance, with a minimum limit of $1,000,000 per occurrence and a minimum umbrella limit of $1,000,000, for a total minimum combined general liability and umbrella limit of $2,000,000 (together with such additional umbrella coverage as Landlord may reasonably require) for property damage, personal injuries, or deaths of persons occurring in or about the Premises. Landlord may from time to time require reasonable increases in any such limits. The commercial liability policies shall name Landlord as an additional insured, insure on an occurrence and not a claims-made basis, be issued by insurance companies which are reasonably acceptable to Landlord, not be cancelable unless 30 days' prior written notice shall have been given to Landlord, contain a hostile fire endorsement and a contractual liability endorsement and provide primary coverage to Landlord (any policy issued to Landlord providing duplicate or similar coverage shall be deemed excess over Tenant's policies). Such policies or certificates thereof shall be delivered to Landlord by Tenant upon commencement of the Lease Term and upon each renewal of said insurance.

The all risk property insurance obtained by Landlord and Tenant shall include a waiver of subrogation by the insurers and all rights based upon an assignment from its insured, against Landlord or Tenant, their officers, directors, employees, managers, agents, invitees and contractors, in connection with any loss or damage thereby insured against. Neither party nor its officers, directors, employees, managers, agents, invitees or contractors shall be liable to the other for loss or damage caused by any risk coverable by all risk property insurance, and each party waives any claims against the other party, and its officers, directors, employees, managers, agents, invitees and contractors for such loss or damage. The failure of a party to insure its property shall not void this waiver. Landlord and its agents, employees and contractors shall not be liable for, and Tenant hereby waives all claims against such parties for, business interruption and losses occasioned thereby sustained by Tenant or any person claiming through Tenant resulting from any accident or occurrence in or upon the Premises or the Project from any cause whatsoever, including without limitation, damage caused in whole or in part, directly or indirectly, by the negligence of Landlord or its agents, employees or contractors.

Tenant and its subtenants, assignees, invitees, employees, contractors and agents shall not be liable for, and Landlord hereby waives all claims against Tenant and its subtenants, assignees, invitees, employees, contractors and agents for damage to property sustained by Landlord or any person claiming through Landlord resulting from any accident or occurrence in or upon the Premises or in or about the Project from any cause whatsoever, including, without limitation, damage caused in whole or in part, directly or indirectly, by the negligence of Tenant or its subtenants, assignees, invitees, employees, contractors or agents; provided, however, such waiver shall only apply to claims in excess of the commercially reasonable deductible under Landlord's insurance policy.

10. LANDLORD'S REPAIRS. Landlord shall maintain, at its expense, the

structural components of the roof, foundation, footings, floor and exterior walls of the Building in good repair, reasonable wear and tear and uninsured losses and damages caused by Tenant, its agents and contractors excluded. The term "walls" as used in this Paragraph 10 shall not include windows, glass or plate glass, doors or overhead doors, special store fronts, dock bumpers, dock plates or levelers, or office entries. Tenant shall promptly give Landlord written notice of any repair required by Landlord pursuant to this Paragraph 10, after which Landlord shall have a reasonable opportunity to repair.

In the event of an emergency, Tenant shall have the right to make such temporary, emergency repairs (and only such temporary, emergency repairs) to the roof, foundation or exterior walls of the Project as may be reasonably necessary to prevent material damage to Tenant's property at the Premises and/or personal injury to Tenant's employees at the Premises (provided Tenant first attempts to notify Landlord telephonically of such emergency and notifies Landlord of such circumstances in writing as soon as practicable thereafter). In such event, Landlord shall reimburse Tenant for the reasonable, out-of-pocket costs actually incurred by Tenant in making such repairs. If Landlord fails to reimburse Tenant for the reasonable, out-of-pocket costs incurred by Tenant in making such repairs, up to but not to exceed $25,000.00 with respect to such emergency, within 30 days after demand therefor, accompanied by supporting evidence of the costs incurred by Tenant, then Tenant may bring an action for damages against Landlord to recover such costs, together with interest thereof at the rate provided for in Paragraph 37(j) of the Lease, and reasonable attorney's fees incurred by Tenant in bringing such action for damages. In no event, however, shall Tenant have a right to terminate the Lease.

11. TENANT'S REPAIRS. Landlord, at Tenant's expense as provided in Paragraph 6, shall maintain in good repair and condition the parking areas and other common areas of the Building, including, but not limited to driveways, alleys, landscape and grounds surrounding the Premises. Subject to Landlord's obligations as set forth in this Lease and subject to Paragraphs 9 and 15, Tenant, at its expense, shall repair, replace and maintain in good condition all portions of the Premises and all areas, improvements and systems exclusively serving the Premises including, without limitation, dock and loading areas, truck doors, plumbing, water and sewer lines up to points of common connection, fire sprinklers and fire protection systems, entries, doors, ceilings, windows, interior walls, and the interior side of demising walls, and heating, ventilation and air conditioning systems. Such repair and replacements include capital expenditures and repairs whose benefit may extend beyond the Term. Heating, ventilation and air conditioning systems and fire sprinklers and fire protection systems serving the Premises shall be maintained at Tenant's expense pursuant to maintenance service contracts entered into by Tenant. The scope of services and

contractors under such maintenance contracts shall be reasonably approved by Landlord. If Tenant fails to perform any repair or replacement for which it is responsible, Landlord may perform such work and be reimbursed by Tenant within 10 days after demand therefor. Subject to Paragraphs 9 and 15, Tenant shall bear the full cost of any repair or replacement to any part of the Building or Project that results from damage caused by Tenant, its agents, contractors, or invitees and any repair that benefits only the Premises.

12. TENANT-MADE ALTERATIONS AND TRADE FIXTURES. Any alterations, additions, or improvements made by or on behalf of Tenant to the Premises ("Tenant-Made Alterations") in excess of $50,000 shall be subject to Landlord's prior written consent, which shall not be unreasonably withheld provided that such alteration does not materially affect the structure or the roof of the Building, or modify the utility systems of the Project. Tenant shall cause, at its expense, all Tenant-Made Alterations to comply with insurance requirements and with Legal Requirements and shall construct at its expense any alteration or modification required by Legal Requirements as a result of any Tenant-Made Alterations. All Tenant-Made Alterations shall be constructed in a good and workmanlike manner by contractors reasonably acceptable to Landlord and only

good grades of materials shall be used. All plans and specifications for any Tenant-Made Alterations shall be submitted to Landlord for its approval. Landlord may monitor construction of the Tenant-Made Alterations. Tenant shall reimburse Landlord for its reasonable costs in reviewing plans and specifications and in monitoring construction. Landlord's right to review plans and specifications and to monitor construction shall be solely for its own benefit, and Landlord shall have no duty to see that such plans and specifications or construction comply with applicable laws, codes, rules and regulations. Tenant shall provide Landlord with the identities and mailing addresses of all persons performing work or supplying materials, prior to beginning such construction, and Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable law. Tenant shall furnish security or make other arrangements reasonably satisfactory to Landlord to assure payment for the completion of all work free and clear of liens and shall provide certificates of insurance for worker's compensation and other coverage in amounts and from an insurance company satisfactory to Landlord protecting Landlord against liability for personal injury or property damage during construction. Upon completion of any Tenant-Made Alterations, Tenant shall deliver to Landlord sworn statements setting forth the names of all contractors and subcontractors who did work on the Tenant-Made Alterations and final lien waivers from all such contractors and subcontractors. Upon surrender of the Premises, all Tenant-Made Alterations and any leasehold improvements constructed by Landlord or Tenant shall remain on the Premises as Landlord's property, except to the extent Landlord requires removal at Tenant's expense of any such items or Landlord and Tenant have otherwise agreed in writing in connection with Landlord's consent to any Tenant-Made Alterations. Upon Tenant's written request, Landlord shall provide Tenant, at the time of Tenant's request for approval of Tenant-Made Alterations, a list of which Tenant-Made Alterations Landlord will require Tenant to remove upon surrender of the Premises. Tenant shall repair any damage caused by such removal.

Tenant, at its own cost and expense and without Landlord's prior approval, may erect such shelves, bins, machinery and trade fixtures (collectively "Trade Fixtures") in the ordinary course of its business provided that such items do not alter the basic character of the Premises, do not overload or damage the Premises, and may be removed without injury to the Premises, and the construction, erection, and installation thereof complies with all Legal Requirements and with Landlord's requirements set forth above. Tenant shall remove its Trade Fixtures and shall repair any damage caused by such removal.

13. SIGNS. Tenant shall not make any changes to the exterior of the Premises, install any exterior lights, decorations, balloons, flags, pennants, banners, or painting, or erect or install any signs, windows or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior of the Premises, without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed. Upon surrender or vacation of the Premises, Tenant shall have removed all signs and repair, paint, and/or replace the building facia surface to which its signs are attached. Tenant shall obtain all applicable governmental permits and approvals for sign and exterior treatments. All signs, decorations, advertising media, blinds, draperies and other window treatment or bars or other security installations visible from outside the Premises shall be subject to Landlord's approval and conform in all respects to Landlord's requirements. Notwithstanding anything contained herein to the contrary, Tenant, at Tenant's sole cost and expense, may place a new monument sign, in substantially similar form as described on the attached Exhibit C, in front of the Building along the Mission Boulevard frontage within the boundaries of the Project, as more fully described on the attached Exhibit A. Further, Tenant, at Tenant's sole cost and expense, may place its company logo sign, in substantially similar form as described on the attached Exhibit B, above the two (2) main entrances of the Premises, as more fully described on the attached Exhibit A. Further, Tenant, at Tenant's sole cost and expense, may place a "name sign", in substantially similar form as described on the attached Exhibit D, at the three (3) locations where the current eToys signage is currently displayed, as more fully described on the attached Exhibit A. Further, Landlord hereby agrees that Tenant, at Tenant's sole cost and expense, may repaint the existing green accents on the Building to the color of blue which is consistent with Tenant's branding. Such repainting

shall be performed in a good and workmanlike manner using first class grade materials and paint, and shall not increase the width of such accents on the Building or adversely impact the overall appearance of the Building.

14. PARKING. Tenant shall be allocated the parking areas of the Building as more fully described on the attached Exhibit A. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties.

15. RESTORATION. If at any time during the Lease Term the Premises are damaged by a fire or other casualty, Landlord shall notify Tenant within 30 days after such damage as to the amount of time Landlord reasonably estimates it will take to restore the Premises. If the restoration time is estimated to exceed 4 months and such damage

materially interferes with Tenant's use of the Premises, Tenant may elect to terminate this Lease upon notice to Landlord given no later than 30 days after Landlord's notice. If Tenant elects not to terminate this Lease or if Landlord estimates that restoration will take 4 months or less, then, Landlord shall promptly restore the Premises excluding the improvements installed by Tenant or by Landlord and paid by Tenant, subject to delays arising from Force Majeure events. Tenant at Tenant's expense shall promptly perform, subject to delays arising from the collection of insurance proceeds, or from Force Majeure events, all repairs or restoration not required to be done by Landlord and shall promptly re-enter the Premises and commence doing business in accordance with this Lease. Notwithstanding the foregoing, either party may terminate this Lease if the Premises are damaged during the last 9 months of the Lease Term and Tenant has not exercised its option to renew, as applicable, (as hereinafter described in Addendum 3), and Landlord reasonably estimates that it will take more than one month to repair such damage. Base Rent and Operating Expenses shall be abated for the period of repair and restoration in the proportion which the area of the Premises, if any, which is not usable by Tenant bears to the total area of the Premises. Such abatement shall be the sole remedy of Tenant, and except as provided herein, Tenant waives any right to terminate the Lease by reason of damage or casualty loss.

16. CONDEMNATION. If any part of the Premises or the Project should be taken for any public or quasi-public use under governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof (a "Taking" or "Taken"), and the Taking would prevent or materially interfere with Tenant's use of the Premises or in Landlord's judgment would materially interfere with or impair its ownership or operation of the Project, then upon written notice by Landlord this Lease shall terminate and Base Rent shall be apportioned as of said date. If part of the Premises shall be Taken, and this Lease is not terminated as provided above, the Base Rent payable hereunder during the unexpired Lease Term shall be reduced to such extent as may be fair and reasonable under the circumstances. Tenant shall have the right, to the extent that same shall not diminish Landlord's award, to make a separate claim against the condemning authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant.

17. ASSIGNMENT AND SUBLETTING. Without Landlord's prior written consent, which Landlord shall not unreasonably withhold or delay, Tenant shall not assign this Lease or sublease the Premises or any part thereof or mortgage, pledge, or hypothecate its leasehold interest or grant any concession or license within the Premises and any attempt to do any of the foregoing shall be void and of no effect. For purposes of this paragraph, a transfer of the ownership interests controlling Tenant shall be deemed an assignment of this Lease unless such ownership interests are publicly traded or unless such transfers do not result in a loss of such control. Notwithstanding the above, Tenant may assign or sublet the Premises, or any part thereof, to any entity controlling Tenant, controlled by Tenant or under common control with Tenant (a "Tenant Affiliate"), without the prior written consent of Landlord. Tenant shall reimburse Landlord for all of Landlord's reasonable out-of-pocket expenses in connection with any assignment or sublease.

It shall be reasonable for the Landlord to withhold its consent to any assignment or sublease in any of the following instances: (i) an Event of Default has occurred and is continuing that would not be cured upon the proposed sublease or assignment; (ii) the assignee or sublessee does not have a net worth calculated according to generally accepted accounting principles at least equal to $100 million immediately prior to such assignment or sublease; (iii) the intended use of the Premises by the assignee or sublessee is not reasonably satisfactory to Landlord; (iv) the identity or business reputation of the assignee or sublessee will, in the good faith judgment of Landlord, tend to damage the goodwill or reputation of the Project; (v) in the case of a sublease, the subtenant has not acknowledged that the Lease controls over any inconsistent provision in the sublease; or (vi) the proposed assignee or sublessee is a governmental agency. Tenant and Landlord acknowledge that each of the foregoing criteria are reasonable as of the date of execution of this Lease. The foregoing criteria shall not exclude any other reasonable basis for Landlord to refuse its consent to such assignment or sublease. Any approved assignment or sublease shall be expressly subject to the terms and conditions of this Lease. Tenant shall provide to Landlord all information concerning the assignee or sublessee as Landlord may request.

Notwithstanding anything contained herein to the contrary, Landlord hereby consents to the entering into of that certain Sublease Agreement dated March 30, 2001 ("eToys Sublease") between Tenant, as sublessor, and eToys, Inc., as subtenant ("Subtenant"), upon the express understandings and conditions that (a) Landlord neither approves nor disapproves the terms, conditions and agreements contained in the eToys Sublease (all of which shall be subordinate and subject at all times to the terms, covenants and conditions of this Lease) and assumes no liability or obligation of any kind whatsoever on account of anything contained in the eToys Sublease; (b) by consenting to the eToys Sublease, Landlord shall not be deemed to have waived any rights under this Lease nor shall Landlord be deemed to have waived Tenant's obligations to obtain any required consents under this Lease (other than consent to the eToys Sublease itself); (c) Notwithstanding anything in the eToys Sublease to the contrary, Tenant shall be and continue to remain liable for the payment of rent and the full and prompt performance of all of the obligations of Tenant under and as set forth in this Lease; (d) Nothing contained in the eToys Sublease shall be taken or construed to in any way modify, alter, waive or affect any of the terms, covenants or conditions contained in this Lease, or be deemed to grant Subtenant any privity of contract with Landlord, or require Landlord to accept any payments from Subtenant on behalf of Tenant; (e) The eToys Sublease shall be deemed and agreed to be a sublease only and not an assignment and there shall be no further subletting or assignment of all or any portion of the Premises under this Lease (including the premises demised by the foregoing eToys Sublease) except in accordance with the terms and conditions of this Lease; and (f) If Landlord terminates this Lease as a result of a default by Tenant thereunder, the eToys Sublease shall automatically terminate concurrently therewith.

Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully responsible and liable for the payment of the rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignments or sublettings). In the event that the rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment plus any bonus or other consideration therefor or incident thereto) exceeds the rental payable under this Lease, then Tenant shall be bound and obligated to pay Landlord as additional rent hereunder 50% of all such excess rental and other excess consideration within 10 days following receipt thereof by Tenant, except as the same applies to the eToys Sublease, in which case Tenant shall not be obligated to Landlord for the payment of such excess rental or other excess consideration.

If this Lease be assigned or if the Premises be subleased (whether in whole or in part) or in the event of the mortgage, pledge, or

hypothecation of Tenant's leasehold interest or grant of any concession or license within the Premises or if the Premises be occupied in whole or in part by anyone other than Tenant, then upon a default by Tenant hereunder Landlord may collect rent from the assignee, sublessee, mortgagee, pledgee, party to whom the leasehold interest was hypothecated, concessionee or licensee or other occupant and, except to the extent set forth in the preceding paragraph, apply the amount collected to the next rent payable hereunder; and all such rentals collected by Tenant shall be held in trust for Landlord and immediately forwarded to Landlord. No such transaction or collection of rent or application thereof by Landlord, however, shall be deemed a waiver of these provisions or a release of Tenant from the further performance by Tenant of its covenants, duties, or obligations hereunder.

18. INDEMNIFICATION. Except for the negligence of Landlord, its agents, employees or contractors, and to the extent permitted by law, Tenant agrees to indemnify, defend and hold harmless Landlord, and Landlord's agents, employees and contractors, from and against any and all losses, liabilities, damages, costs and expenses (including attorneys' fees) resulting from claims by third parties for injuries to any person and damage to or theft or misappropriation or loss of property occurring in or about the Project and arising from the use and occupancy of the Premises or from any activity, work, or thing done, permitted or suffered by Tenant in or about the Premises or due to any other act or omission of Tenant, its subtenants, assignees, invitees, employees, contractors and agents. The furnishing of insurance required hereunder shall not be deemed to limit Tenant's obligations under this Paragraph 18. Further, the foregoing provisions of this Paragraph 18 shall not be deemed to limit the mutual waiver of subrogation between Landlord and Tenant as set forth in Paragraph 9 of this Lease in connection with any loss or damage caused by any risk coverable by all risk property insurance, whereby Landlord and Tenant waive any claims against each other, and its officers, directors, employees, managers, agents, invitees and contractors for such loss or damage coverable by all risk property insurance.

19. INSPECTION AND ACCESS. Landlord and its agents, representatives, and contractors may enter the Premises at any reasonable time to inspect the Premises and to make such repairs as may be required or permitted pursuant to this Lease and for any other business purpose. Landlord and Landlord's representatives may enter the Premises during business hours for the purpose of showing the Premises to prospective purchasers and, during the last year of the Lease Term, to prospective tenants. Landlord may erect a suitable sign on the Premises stating the Premises are available to let or that the Project is available for sale. Landlord may grant easements, make public dedications, designate common areas and create restrictions on or about the Premises, provided that no such easement, dedication, designation or restriction materially interferes with Tenant's use or occupancy of the Premises. At Landlord's request, Tenant shall execute such instruments as may be necessary for such easements, dedications or restrictions.

20. QUIET ENJOYMENT. If Tenant shall perform all of the covenants and agreements herein required to be performed by Tenant, Tenant shall, subject to the terms of this Lease, at all times during the Lease Term, have peaceful and quiet enjoyment of the Premises against any person claiming by, through or under Landlord.

21. SURRENDER. Upon termination of the Lease Term or earlier termination of Tenant's right of possession, Tenant shall surrender the Premises to Landlord in the same condition as received, broom clean, ordinary wear and tear and casualty loss and condemnation covered by Paragraphs 15 and 16 and Tenant's removal or non-removal of Tenant-Made Alterations pursuant to the provisions of Paragraph 12 excepted. Any Trade Fixtures, Tenant-Made Alterations and property not so removed by Tenant as permitted or required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property. All obligations of Tenant hereunder not fully performed as of the termination of the Lease Term shall survive the termination of the Lease Term, including without limitation, indemnity obligations, payment obligations with respect to Operating Expenses and obligations concerning the condition and repair of the Premises.

22. HOLDING OVER. If Tenant retains possession of the Premises after the termination of the Lease Term, unless otherwise agreed in writing, such possession shall be subject to immediate termination by Landlord at any time, and all of the other terms and provisions of this Lease (excluding any expansion or renewal option or other similar right or option) shall be applicable during such holdover period, except that Tenant shall pay Landlord from time to time, upon demand, as Base Rent for the holdover period, an amount equal to double the Base Rent in effect on the termination date, computed on a monthly basis for each month or part thereof during such holding over. All other payments shall continue under the terms of this Lease. In addition, Tenant shall be liable for all damages incurred by Landlord as a result of such holding over. No holding over by Tenant, whether with or without consent of Landlord,

shall operate to extend this Lease except as otherwise expressly provided, and this Paragraph 22 shall not be construed as consent for Tenant to retain possession of the Premises.

23. EVENTS OF DEFAULT. Each of the following events shall be an event of default ("Event of Default") by Tenant under this Lease:

(i) Tenant shall fail to pay any installment of Base Rent or any other payment required herein when due, and such failure shall continue for a period of 10 days from the date such payment was due.

(ii) Tenant or any guarantor or surety of Tenant's obligations hereunder shall (A) make a general assignment for the benefit of creditors; (B) commence any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively a "proceeding for relief"); (C) become the subject of any proceeding for relief which is not dismissed within 60 days of its filing or entry; or (D) die or suffer a legal disability (if Tenant, guarantor, or surety is an individual) or be dissolved or otherwise fail to maintain its legal existence (if Tenant, guarantor or surety is a corporation, partnership or other entity).

(iii) Any insurance required to be maintained by Tenant pursuant to this Lease shall be cancelled or terminated or shall expire or shall be reduced or materially changed, except, in each case, as permitted in this Lease.

(iv) Tenant shall not occupy or shall vacate the Premises or shall fail to continuously operate its business at the Premises for the permitted use set forth herein, whether or not Tenant is in monetary or other default under this Lease.

(v) Tenant shall attempt or there shall occur any assignment, subleasing or other transfer of Tenant's interest in or with respect to this Lease except as otherwise permitted in this Lease.

(vi) Tenant shall fail to discharge any lien placed upon the Premises in violation of this Lease within 30 days after any such lien or encumbrance is filed against the Premises.

(vii) Tenant shall fail to comply with any provision of this Lease other than those specifically referred to in this Paragraph 23, and except as otherwise expressly provided herein, such default shall continue for more than 30 days after Landlord shall have given Tenant written notice of such default.

24. LANDLORD'S REMEDIES. Upon each occurrence of an Event of Default and so long as such Event of Default shall be continuing, Landlord may at any time thereafter at its election: terminate this Lease or Tenant's right of possession, (but Tenant shall remain liable as hereinafter provided) and/or pursue any other remedies at law or in equity. Upon the termination of this Lease or termination of Tenant's right of possession, it shall be lawful for Landlord, without formal demand or notice of any kind, to re-enter the Premises by summary dispossession proceedings or any other action or proceeding authorized by law and to remove Tenant and all persons and property therefrom. If Landlord re-enters the Premises, Landlord shall have the right to keep in place and use, or remove and store, all of the furniture, fixtures and equipment at the Premises.

Except as otherwise provided in the next paragraph, if Tenant breaches this Lease and abandons the Premises prior to the end of the term hereof, or if Tenant's right to possession is terminated by Landlord because of an Event of Default by Tenant under this Lease, this Lease shall terminate. Upon such termination, Landlord may recover from Tenant the following, as provided in Section 1951.2 of the Civil Code of California: (i) the worth at the time of award of the unpaid Base Rent and other charges under this Lease that had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the reasonable value of the unpaid Base Rent and other charges under this Lease which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; (iii) the worth at the time of the award by which the reasonable value of the unpaid Base Rent and other charges under this Lease for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or that in the ordinary course of things would be likely to result therefrom. As used herein, the following terms are defined: (a) the "worth at the time of award" of the amounts referred to in Sections (i) and (ii) is computed by allowing interest at the lesser of 18 percent per annum or the maximum lawful rate. The "worth at the time of award" of the amount referred to in Section (iii) is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent; (b) the "time of award" as used in clauses (i), (ii), and (iii) above is the date on which judgment is entered by a court of competent jurisdiction; (c) The "reasonable value" of the amount referred to in clause (ii) above is computed by determining the mathematical product of (1) the "reasonable annual rental value" (as defined herein) and (2) the number of years, including fractional parts thereof, between the date of termination and the time of award. The "reasonable value" of the amount referred to in clause (iii) is computed by determining the mathematical product of (1) the annual Base Rent and other charges under this Lease and (2) the number of years including fractional parts thereof remaining in the balance of the term of this Lease after the time of award.

Even though Tenant has breached this Lease and abandoned the Premises, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession, and Landlord may enforce all its rights and remedies under this Lease, including the right to recover rent as it becomes due. This remedy is intended to be the remedy described in California Civil Code Section 1951.4 and the following provision from such Civil Code Section is hereby repeated: "The Lessor has the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations)." Any such payments due Landlord shall be made upon demand therefor from time to time and Tenant agrees that Landlord may file suit to recover any sums falling due from time to time. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect in writing to terminate this Lease for such previous breach.

Exercise by Landlord of any one or more remedies hereunder

granted or otherwise available shall not be deemed to be an acceptance of surrender of the Premises and/or a termination of this Lease by Landlord, whether by agreement or by operation of law, it being understood that such surrender and/or termination can be effected only by the written agreement of Landlord and Tenant. Any law, usage, or custom to the contrary notwithstanding, Landlord shall have the right at all times to enforce the provisions of this Lease in strict accordance with the terms hereof; and the failure of Landlord at any time to enforce its rights under this Lease strictly in accordance with same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions, and covenants of this Lease or as having modified the same. Tenant and Landlord further agree that forbearance or waiver by Landlord to enforce its rights pursuant to this Lease or at law or in equity, shall not be a waiver of Landlord's right to enforce one or more of its rights in connection with any subsequent default. A receipt by Landlord of rent or other payment with knowledge of the breach of any covenant hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord. To the greatest extent permitted by law, Tenant waives the service of notice of Landlord's intention to re-enter as provided for in any statute, or to institute legal proceedings to that end, and also waives all right of redemption in case Tenant shall be dispossessed by a judgment or by warrant of any court or judge. The terms "enter," "re-enter," "entry" or "re-entry," as used in this Lease, are not restricted to their technical legal meanings. Any reletting of the Premises shall be on such terms and conditions as Landlord in its sole discretion may determine (including without limitation a term different than the remaining Lease Term, rental concessions, alterations and repair of the Premises, lease of less than the entire Premises to any tenant and leasing any or all other portions of the Project before reletting the Premises). Landlord shall not be liable, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or collect rent due in respect of such reletting.

25. TENANT'S REMEDIES/LIMITATION OF LIABILITY. Landlord shall not be in default hereunder unless Landlord fails to perform any of its obligations hereunder within 30 days after written notice from Tenant specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of 30 days, then after such period of time as is reasonably necessary). All obligations of Landlord hereunder shall be construed as covenants, not conditions; and, except as may be otherwise expressly provided in this Lease, Tenant may not terminate this Lease for breach of Landlord's obligations hereunder. All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter. The term "Landlord" in this Lease shall mean only the owner, for the time being of the Premises, and in the event of the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all obligations of Landlord thereafter accruing, it being understood that Landlord shall not be released from any obligations accruing prior to such transfer unless such obligations have been assumed in writing by Landlord's successor, but such obligations shall be binding during the Lease Term upon each new owner for the duration of such owner's ownership. Any liability of Landlord under this Lease shall be limited solely to its interest in the Project, and in no event shall any personal liability be asserted against Landlord in connection with this Lease nor shall any recourse be had to any other property or assets of Landlord.

26. Intentionally deleted.

27. SUBORDINATION. This Lease and Tenant's interest and rights hereunder are and shall be subject and subordinate at all times to the lien of any mortgage, now existing or hereafter created on or against the Project or the Premises, and all amendments, restatements, renewals, modifications, consolidations, refinancing, assignments and extensions thereof, without the necessity of any further instrument or act on the part of Tenant. Tenant agrees, at the election of the holder of any such mortgage, to attorn to any such holder. Tenant agrees upon demand to execute, acknowledge and deliver such instruments, confirming such subordination and such instruments of attornment as shall be requested by any such holder. Tenant hereby appoints Landlord attorney in fact for Tenant irrevocably (such power of attorney being coupled with an

interest) to execute, acknowledge and deliver any such instrument and instruments for and in the name of the Tenant and to cause any such instrument to be recorded. Notwithstanding the foregoing, any such holder may at any time subordinate its mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution, delivery or recording and in that event such holder shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution, delivery and recording of such mortgage and had been assigned to such holder. The term "mortgage" whenever used in this Lease shall be deemed to include deeds of trust, security assignments and any other encumbrances, and any reference to the "holder" of a mortgage shall be deemed to include the beneficiary under a deed of trust.

Tenant shall not be obligated to subordinate the Lease or its interest therein to any mortgage, deed of

trust or ground lease on the Project unless concurrently with such subordination the holder of such mortgage or deed of trust or the ground lessor under such ground lease agrees not to disturb Tenant's possession of the Premises under the terms of the Lease in the event such holder or ground lessor acquires title to the Premises through foreclosure, deed in lieu of foreclosure or otherwise. Landlord shall use commercially reasonable and good faith efforts to obtain a non-disturbance agreement from any such holder or ground lessor existing as of the Commencement Date for the benefit of Tenant.

28. MECHANIC'S LIENS. Tenant has no express or implied authority to create or place any lien or encumbrance of any kind upon, or in any manner to bind the interest of Landlord or Tenant in, the Premises or to charge the rentals payable hereunder for any claim in favor of any person dealing with Tenant, including those who may furnish materials or perform labor for any construction or repairs. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises and that it will save and hold Landlord harmless from all loss, cost or expense based on or arising out of asserted claims or liens against the leasehold estate or against the interest of Landlord in the Premises or under this Lease. Tenant shall give Landlord immediate written notice of the placing of any lien or encumbrance against the Premises and cause such lien or encumbrance to be discharged within 30 days of the filing or recording thereof; provided, however, Tenant may contest such liens or encumbrances as long as such contest prevents foreclosure of the lien or encumbrance and Tenant causes such lien or encumbrance to be bonded or insured over in a manner satisfactory to Landlord within such 30 day period.

29. ESTOPPEL CERTIFICATES. Tenant agrees, from time to time, within 10 days after request of Landlord, to execute and deliver to Landlord, or Landlord's designee, any estoppel certificate requested by Landlord, stating that this Lease is in full force and effect, the date to which rent has been paid, that Landlord is not in default hereunder (or specifying in detail the nature of Landlord's default), the termination date of this Lease and such other matters pertaining to this Lease as may be requested by Landlord. Tenant's obligation to furnish each estoppel certificate in a timely fashion is a material inducement for Landlord's execution of this Lease. No cure or grace period provided in this Lease shall apply to Tenant's obligations to timely deliver an estoppel certificate. Tenant hereby irrevocably appoints Landlord as its attorney in fact to execute on its behalf and in its name any such estoppel certificate if Tenant fails to execute and deliver the estoppel certificate within 10 days after Landlord's written request thereof.

30. ENVIRONMENTAL REQUIREMENTS. Except for Hazardous Material contained in products used by Tenant in de minimis quantities for ordinary cleaning and office purposes and equipment maintenance, Tenant shall not permit or cause any party to bring any Hazardous Material upon the Premises or

transport, store, use, generate, manufacture or release any Hazardous Material in or about the Premises without Landlord's prior written consent. Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements and shall remediate in a manner satisfactory to Landlord any Hazardous Materials released on or from the Project by Tenant, its agents, employees, contractors, subtenants or invitees. Tenant shall complete and certify to disclosure statements as requested by Landlord from time to time relating to Tenant's transportation, storage, use, generation, manufacture or release of Hazardous Materials on the Premises. The term "Environmental Requirements" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders or other similar enactments of any governmental authority or agency regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. The term "Hazardous Materials" means and includes any substance, material, waste, pollutant, or contaminant listed or defined as hazardous or toxic, under any Environmental Requirements, asbestos and petroleum, including crude oil or any fraction thereof, natural gas liquids, liquified natural gas, or synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas). As defined in Environmental Requirements, Tenant is and shall be deemed to be the "operator" of Tenant's "facility" and the "owner" of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all losses (including, without limitation, diminution in value of the Premises or the Project and loss of rental income from the Project), claims, demands, actions, suits, damages (including, without limitation, punitive damages), expenses (including, without limitation, remediation, removal, repair, corrective action, or cleanup expenses), and costs (including, without limitation, actual attorneys' fees, consultant fees or expert fees and including, without limitation, removal or management of any asbestos brought into the property by Tenant, its agents, employees, contractors, subtenants, assignees or invitees or disturbed by Tenant, its agents, employees, contractors, subtenants, assignees or invitees in breach of the requirements of this Paragraph 30, regardless of whether such removal or management is required by law) which are brought or recoverable against, or suffered or incurred by Landlord as a result of any release of Hazardous Materials for which Tenant is obligated to remediate as provided above or any other breach of the requirements under this Paragraph 30 by Tenant, its agents, employees, contractors, subtenants, assignees or invitees, regardless of whether Tenant had knowledge of such noncompliance. The obligations of Tenant under this Paragraph 30 shall survive any termination of this Lease.

Landlord shall have access to, and a right to perform inspections and tests of, the Premises to determine Tenant's compliance with Environmental Requirements, its obligations under this Paragraph 30, or the environmental condition of the Premises. Access shall be granted to Landlord upon Landlord's prior notice to Tenant and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to Tenant's

operations. Such inspections and tests shall be conducted at Landlord's expense, unless such inspections or tests reveal that Tenant has not complied with any Environmental Requirement, in which case Tenant shall reimburse Landlord for the reasonable cost of such inspection and tests. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against Tenant.

Landlord represents and warrants that except for information contained in the Phase I Environmental Assessment Report dated June 19, 2000 and

prepared by ATC Associates Inc., Landlord, to Landlord's knowledge without further inquiry, is unaware of any environmental conditions affecting the Premises.

Notwithstanding anything to the contrary in this Paragraph 30, Tenant shall have no liability of any kind to Landlord as to Hazardous Materials on the Premises caused or permitted by (i) Landlord, its agents, employees, contractors or invitees; or (ii) any other tenants in the Project or their agents, employees, contractors, subtenants, assignees or invitees; or (iii) any other person or entity located outside of the Premises or the Project.

Landlord shall indemnify, defend and save Tenant harmless from any claims, fines, penalties, liabilities, losses, damages, costs and expenses (including reasonable attorney's fees, expert witness fees and other costs of defense) which arise from any environmental condition existing prior to the Commencement Date adversely affecting the Premises and in violation of Environmental Requirements.

31. RULES AND REGULATIONS. Tenant shall, at all times during the Lease Term and any extension thereof, comply with all reasonable rules and regulations at any time or from time to time established by Landlord covering use of the Premises and the Project. The current rules and regulations are attached hereto. In the event of any conflict between said rules and regulations and other provisions of this Lease, the other terms and provisions of this Lease shall control. Landlord shall not have any liability or obligation for the breach of any rules or regulations by other tenants in the Project.

32. SECURITY SERVICE. Tenant acknowledges and agrees that, while Landlord may patrol the Project, Landlord is not providing any security services with respect to the Premises and that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises.

33. FORCE MAJEURE. Except for monetary obligations, neither Landlord nor Tenant shall be held responsible for delays in the performance of its obligations hereunder when caused by strikes, lockouts, labor disputes, acts of God, inability to obtain labor or materials or reasonable substitutes therefor, governmental restrictions, governmental regulations, governmental controls, delay in issuance of permits, enemy or hostile governmental action, civil commotion, fire or other casualty, and other causes beyond the reasonable control of Landlord or Tenant ("Force Majeure").

34. ENTIRE AGREEMENT. This Lease constitutes the complete agreement of Landlord and Tenant with respect to the subject matter hereof. No representations, inducements, promises or agreements, oral or written, have been made by Landlord or Tenant, or anyone acting on behalf of Landlord or Tenant, which are not contained herein, and any prior agreements, promises, negotiations, or representations are superseded by this Lease. This Lease may not be amended except by an instrument in writing signed by both parties hereto.

35. SEVERABILITY. If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added, as a part of this Lease, a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

36. BROKERS. Tenant represents and warrants that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, other than the broker, if any, set forth on the first page of this Lease, and Tenant agrees to indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of

compensation by virtue of having dealt with Tenant with regard to this leasing transaction. Landlord hereby acknowledges and agrees that the broker referenced on Page One of this Lease shall be entitled to a leasing commission from Landlord by virtue of this Lease, which leasing commission shall be deemed earned and shall be paid by Landlord to said broker in accordance with, and subject to the terms of, a separate written agreement.

37. MISCELLANEOUS. (a) Any payments or charges due from Tenant to Landlord hereunder shall be considered rent for all purposes of this Lease.

(b) If and when included within the term "Tenant," as used in this instrument, there is more than one person, firm or corporation, each shall be jointly and severally liable for the obligations of Tenant.

(c) All notices required or permitted to be given under this Lease shall be in writing and shall be sent by registered or certified mail, return receipt requested, or by a reputable national overnight courier service, postage prepaid, or by hand delivery addressed to the parties at their addresses below, and with a copy sent to Landlord at 14100 East 35th Place, Aurora, Colorado 80011. Either party may by notice given aforesaid change its address for all subsequent notices. Except where otherwise expressly provided to the contrary, notice shall be deemed given upon delivery.

(d) Except as otherwise expressly provided in this Lease or as otherwise required by law, Landlord's right to withhold any consent or approval shall not be unreasonably withheld or delayed.

(e) Intentionally deleted.

(f) Neither this Lease nor a memorandum of lease shall be filed by or on behalf of Tenant in any public record. Landlord may prepare and file, and upon request by Landlord Tenant will execute, a memorandum of lease.

(g) The normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments hereto.

(h) The submission by Landlord to Tenant of this Lease shall have no binding force or effect, shall not constitute an option for the leasing of the Premises, nor confer any right or impose any obligations upon either party until execution of this Lease by both parties.

(i) Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

(j) Any amount not paid by Tenant within 10 days after its due date in accordance with the terms of this Lease shall bear interest from such due date until paid in full at the lesser of the highest rate permitted by applicable law or 12 percent per year. It is expressly the intent of Landlord and Tenant at all times to comply with applicable law governing the maximum rate or amount of any interest payable on or in connection with this Lease. If applicable law is ever judicially interpreted so as to render usurious any interest called for under this Lease, or contracted for, charged, taken , reserved, or received with respect to this Lease, then it is Landlord's and Tenant's express intent that all excess amounts theretofore collected by Landlord be credited on the applicable obligation (or, if the obligation has been or would thereby be paid in full, refunded to Tenant), and the provisions of this Lease immediately shall be deemed reformed and the amounts thereafter collectible hereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the

recovery of the fullest amount otherwise called for hereunder.

(k) Construction and interpretation of this Lease shall be governed by the laws of the state in which the Project is located, excluding any principles of conflicts of laws.

(l) Time is of the essence as to the performance of Tenant's obligations under this Lease.

(m) All exhibits and addenda attached hereto are hereby incorporated into this Lease and made a part hereof. In the event of any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.

38. LANDLORD'S LIEN/SUBORDINATION. Provided Tenant is not in default under the Lease, Landlord, at the request of Tenant, agrees to subordinate Landlord's lien, if any, arising under the Lease against Tenant's property or any of Tenant's leased or financed property located on the Premises and agrees that Tenant's property or its leased or financed property shall not become part of the Premises or encumbered by a lien by Landlord regardless of the manner in which the leased or financed property may be attached or affixed to the Premises. Such subordination shall be required only if the lender or lessor shall be a bank or other financial institution or the vendor of Tenant's equipment or a financing entity related to such vendor and shall be subject to such conditions as Landlord may reasonably require. Tenant shall reimburse Landlord for all reasonable out-of-pocket expenses incurred by Landlord in negotiating and executing such agreement with Tenant's lender.

39. LIMITATION OF LIABILITY OF TRUSTEES, SHAREHOLDERS, AND OFFICERS OF PROLOGIS TRUST. Any obligation or liability whatsoever of ProLogis Trust, a Maryland real estate investment trust, which may arise at any time under this Lease or any obligation or liability which may be incurred by it pursuant to any other instrument, transaction, or undertaking contemplated hereby shall not be personally binding upon, nor shall resort for the enforcement thereof be had to the property of, its trustees, directors, shareholders, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort, or otherwise.

40. LIMITATION OF LIABILITY OF DIRECTORS, SHAREHOLDERS, AND OFFICERS OF SKECHERS U.S.A., INC. Any obligation or liability whatsoever of Skechers U.S.A., Inc., a Delaware corporation, which may arise at any time under this Lease or any obligation or liability which may be incurred by it pursuant to any other instrument,

transaction, or undertaking contemplated hereby shall not be personally binding upon, nor shall resort for the enforcement thereof be had to the property of, its directors, shareholders, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort, or otherwise.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the day and year first above written.

TENANT:	LANDLORD:
SKECHERS U.S.A., INC	PROLOGIS CALIFORNIA I LLC
	BY: PROLOGIS TRUST, ITS MANAGING MEMBER

By: /s/ DAVID WEINBERG
Name: David Weinberg
Title: CFO

By: /s/ PHILIP G. PACCIONE
Name: Philip G. Paccione
Title: V.P. and Corporate Secretary

Address:

228 Manhattan Beach Blvd.
Manhattan Beach, CA 90266

By: /s/ NED K. ANDERSON
Name: Ned K. Anderson
Title: Managing Director

Address:

47775 Fremont Blvd.
Fremont, CA 94538

Rules and Regulations

1. The sidewalk, entries, and driveways of the Project shall not be obstructed by Tenant, or its agents, or used by them for any purpose other than ingress and egress to and from the Premises.

2. Tenant shall not place any objects, including antennas, outdoor furniture, etc., in the parking areas, landscaped areas or other areas outside of its Premises, or on the roof of the Project.

3. Except for seeing-eye dogs, no animals shall be allowed in the offices, halls, or corridors in the Project.

4. Tenant shall not disturb the occupants of the Project or adjoining buildings by the use of any radio or musical instrument or by the making of loud or improper noises.

5. Except as otherwise set forth in the Lease, if Tenant desires telegraphic, telephonic or other electric connections in the Premises, no boring or cutting of wires will be permitted without Landlord's prior consent, which shall not be unreasonably withheld or delayed. Any such installation or connection shall be made at Tenant's expense.

6. Tenant shall not install or operate any steam or gas engine or boiler, or other mechanical apparatus (except for Tenant's material handling system) in the Premises, except as specifically approved in the Lease. The use of oil, gas or inflammable liquids for heating, lighting or any other purpose is expressly prohibited. Explosives or other articles deemed extra hazardous shall not be brought into the Project.

7. Parking any type of recreational vehicles is specifically prohibited on or about the Project. Except for the overnight parking of operative vehicles and except as permitted in the Lease, no vehicle of any type shall be stored in the parking areas at any time. In the event that a vehicle is disabled, it shall be removed within 48 hours. There shall be no "For Sale" or other advertising signs on or about any parked vehicle. All vehicles shall be parked in the designated parking areas in conformity with all signs and other markings. All parking will be open parking, and no reserved parking, numbering or lettering of individual spaces will be permitted except as specified by Landlord.

8. Tenant shall maintain the Premises free from rodents, insects and other pests.

9. Landlord reserves the right to exclude or expel from the Project any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs or who shall in any manner do any act in violation of the Rules and Regulations of the Project.

10. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Landlord shall not be responsible to Tenant for any loss of property on the Premises, however occurring, or for any damage done to the effects of Tenant by the janitors or any other employee or person.

11. Tenant shall give Landlord prompt notice of any defects in the water, lawn sprinkler, sewage, gas pipes, electrical lights and fixtures, heating apparatus, or any other service equipment affecting the Premises.

12. Except as otherwise set forth in the Lease, Tenant shall not permit storage outside the Premises, including without limitation, outside storage of trucks and other vehicles, or dumping of waste or refuse or permit any harmful materials to be placed in any drainage system or sanitary system in or about the Premises.

13. All moveable trash receptacles provided by the trash disposal firm for the Premises must be kept in the trash enclosure areas, if any, provided for that purpose.

14. No auction, public or private, will be permitted on the Premises or the Project without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed.

15. No awnings shall be placed over the windows in the Premises except with the prior written consent of Landlord.

16. The Premises shall not be used for lodging, sleeping or cooking (except for microwave usage) or for any immoral or illegal purposes or for any purpose other than that specified in the Lease. No gaming devices shall be operated in the Premises.

17. Tenant shall ascertain from Landlord the maximum amount of electrical current which can safely be used in the Premises, taking into account the capacity of the electrical wiring in the Project and the Premises and the needs of other tenants, and shall not use more than such safe capacity. Landlord's consent to the installation of electric equipment shall not relieve Tenant from the obligation not to use more electricity than such safe capacity.

18. Tenant assumes full responsibility for protecting the Premises from theft, robbery and pilferage.

19. Tenant shall not install or operate on the Premises any machinery or mechanical devices of a nature not related to Tenant's use of the Premises as permitted under the Lease.

ADDENDUM 1

BASE RENT ADJUSTMENTS

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED 4/10, 2001, BETWEEN
PROLOGIS CALIFORNIA I LLC
and

Base Rent shall equal the following amounts for the respective periods set forth below:

Period	Monthly Base Rent
Month 1 through Month 60	$217,520.00
Month 61 through Month 90	$236,601.00
Month 91 through Month 120	$251,865.00

ADDENDUM 2

CONSTRUCTION
(ALLOWANCE)

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED 4/10, 2001, BETWEEN
PROLOGIS CALIFORNIA I LLC
and
SKECHERS U.S.A., INC.

(a) Landlord agrees to furnish or perform those items of construction and those improvements (the "Initial Improvements") specified below:

> Dock equipment packages including levelers, seals, shelters, bumpers, lighting and foil insulation (provided such insulation is installed in such a manner that it is held back from the purlin hangers in a manner approved by Landlord) and general purpose electrical wiring and distribution which shall be mutually agreed upon between Landlord and Tenant.

Landlord shall pay for the Initial Improvements up to a maximum amount of $650,000.00, and Tenant shall pay for the cost of the Initial Improvements in excess of such amount. If the cost of the Initial Improvements is estimated to exceed such amount, such estimated overage shall be paid by Tenant before Landlord begins construction and a final adjusting payment based upon the actual costs of the Initial Improvements shall be made when the Initial Improvements are complete.

Landlord will competitively bid all Initial Improvements and will disclose such bids to Tenant on an "open book" basis.

(b) If Tenant shall desire any changes, Tenant shall so advise Landlord in writing and Landlord shall determine whether such changes can be made in a reasonable and feasible manner. Any and all costs of reviewing any requested changes, and any and all costs of making any changes to the Initial Improvements which Tenant may request and which Landlord may agree to shall be at Tenant's sole cost and expense and shall be paid to Landlord upon demand and before execution of the change order.

(c) Landlord shall proceed with and complete the construction of the Initial Improvements in a good and workmanlike manner. As soon as such improvements have been Substantially Completed, which such date shall be no later than 120 days following mutual agreement between the parties of the plans and specifications for the Initial Improvements, unless otherwise agreed to by the parties, Landlord shall notify Tenant in writing of the date that the Initial Improvements were Substantially Completed. The Initial Improvements shall be deemed substantially completed ("Substantially Completed") when, in the opinion of the construction manager (whether an employee or agent of Landlord or a third party construction manager) ("Construction Manager"), the Premises are substantially completed except for punch list items which do not prevent in any material way the use of the Premises for the purposes for which they were intended. In the event Tenant, its employees, agents, or contractors cause construction of such improvements to be delayed, the date of Substantial Completion shall be deemed to be the date that, in the opinion of the Construction Manager, Substantial Completion would have occurred if such delays had not taken place. Without limiting the foregoing, Tenant shall be solely responsible for delays caused by Tenant's request for any changes in the plans, Tenant's request for long lead items or Tenant's interference with the construction of the Initial Improvements. After the Initial Improvements are Substantially Completed, Tenant shall, upon demand, execute and deliver to Landlord a letter of acceptance of delivery of the Premises. In the event of any dispute as to the Initial Improvements, the certificate of the Construction Manager shall be conclusive absent manifest error.

(d) The failure of Tenant to take possession of or to occupy the Premises through no fault of Landlord shall not serve to relieve Tenant of obligations arising on the Commencement Date or delay the payment of rent by Tenant. Subject to applicable ordinances and building codes governing Tenant's right to occupy or perform in the Premises, Tenant shall be allowed to install its tenant improvements, machinery, equipment, fixtures, or other property on the Premises during the final stages of completion of construction provided that Tenant does not thereby interfere with the completion of construction or cause any labor dispute as a result of such installations, and provided further that Tenant does hereby agree to indemnify, defend, and hold Landlord harmless from any loss or damage to such property, and all liability, loss, or damage arising from any injury to the Project or the property of Landlord, its contractors, subcontractors, or materialmen, and any death or personal injury to any person or persons arising out of such installations, unless any such loss, damage, liability, death, or personal injury was caused by Landlord's negligence. Any such occupancy or performance in the Premises shall be in accordance with the provisions governing Tenant-Made Alterations and Trade Fixtures in the Lease, and shall be subject to Tenant providing to Landlord satisfactory evidence of insurance for personal injury and property damage related to such installations and satisfactory payment arrangements with respect to installations permitted hereunder. Delay in putting Tenant in possession of the Premises shall not serve to extend the term of this Lease or to make Landlord liable for any damages arising therefrom.

(e) Except for incomplete punch list items which are not of a material nature, Tenant upon Substantial Completion of the Initial Improvements shall have and hold the Premises as the same shall then be without

any liability or obligation on the part of Landlord for making any further alterations or improvements of any kind in or about the Premises.

ADDENDUM 3

TWO RENEWAL OPTIONS
(BASEBALL ARBITRATION)

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED 4/10, 2001, BETWEEN
PROLOGIS CALIFORNIA I LLC
and
SKECHERS U.S.A., INC.

(a) Provided that as of the time of the giving of the First Extension Notice (as hereafter defined) and the Commencement Date of the First Extension Term (as hereafter defined), (x) Tenant is the Tenant originally named herein (or a Tenant Affiliate or a permitted assignee), (y) Tenant (or a Tenant Affiliate or a permitted assignee) actually occupies all of the Premises initially demised under this Lease and any space added to the Premises, and (z) no Event of Default exists or would exist but for the passage of time or the giving of notice, or both; then Tenant shall have the right to extend the Lease Term for an additional term of 5 years (such additional term is hereinafter called the "First Extension Term") commencing on the day following the expiration of the Lease Term (hereinafter referred to as the "Commencement Date of the First Extension Term"). Tenant shall give Landlord notice (hereinafter called the "First Extension Notice") of its election to extend the term of the Lease Term at least 9 months, but not more than 12 months, prior to the scheduled expiration date of the Lease Term.

(b) Provided that as of the time of the giving of the Second Extension Notice (as hereafter defined) and the Commencement Date of the Second Extension Term (as hereafter defined), (x) Tenant is the Tenant originally named herein (or a Tenant Affiliate or a permitted assignee), (y) Tenant (or a Tenant Affiliate or a permitted assignee) actually occupies all of the Premises initially demised under this Lease and any space added to the Premises, and (z) no Event of Default exists or would exist but for the passage of time or the giving of notice, or both and provided Tenant has exercised its option for the First Extension Term; then Tenant shall have the right to extend the Lease Term for an additional term of 5 years (such additional term is hereinafter called the "Second Extension Term") commencing on the day following the expiration of the First Extension Term (hereinafter referred to as the "Commencement Date of the Second Extension Term"). Tenant shall give Landlord notice (hereinafter called the "Second Extension Notice") of its election to extend the term of the Lease Term at least 9 months, but not more than 12 months, prior to the scheduled expiration date of the First Extension Term.

(c) The Base Rent payable by Tenant to Landlord during the First Extension Term shall be the greater of:

(i) the Base Rent in effect on the expiration of the Lease Term, and

(ii) the Fair Market Rent, as defined and determined pursuant to Paragraphs (e), (f), and (g) below.

(d) The Base Rent payable by Tenant to Landlord during the Second Extension Term shall be the greater of:

(i) the Base Rent in effect on the expiration of the First Extension Term, and

(ii) the Fair Market Rent, as defined and determined pursuant to Paragraphs (e), (f), and (g) below.

(e) The term "Fair Market Rent" shall mean the Base Rent, expressed as an annual rent per square foot of floor area, which Landlord would have received from leasing the Premises for the First Extension Term or the Second Extension Term, as applicable, to an unaffiliated person which is not then a tenant in the Project, assuming that such space were to be delivered in "as-is"

condition, and taking into account the rental which such other tenant would most likely have paid for such premises, provided that Fair Market Rent shall not in any event be less than the Base Rent for the Premises as of the expiration of the Lease Term or the First Extension Term, as applicable. Fair Market Rent shall not be further reduced by reason of any costs or expenses saved by Landlord by reason of Landlord's not having to find a new tenant for the Premises (including without limitation brokerage commissions, cost of improvements necessary to prepare the space for such tenant's occupancy, rent concession, or lost rental income during any vacancy period). Fair Market Rent means only the rent component defined as Base Rent in the Lease and does not include reimbursements and payments by Tenant to Landlord with respect to Operating Expenses and other items payable or reimbursable by Tenant under the Lease. In addition to its obligation to pay Base Rent (as determined herein), Tenant shall continue to pay and reimburse Landlord as set forth in the Lease with respect to such Operating Expenses and other items with respect to the Premises during the First Extension Term or the Second Extension Term, as applicable. The arbitration process described below shall be limited to the determination of the Base Rent and shall not affect or otherwise reduce or modify the Tenant's obligation to pay or reimburse Landlord for such operating expenses and other reimbursable items.

(f) Landlord shall notify Tenant of its determination of the Fair Market Rent (which shall be made in Landlord's sole discretion and shall in any event be not less than the Base Rent in effect as of the expiration of the Lease Term or the First Extension Term, as applicable) for the First Extension Term or the Second Extension Term, as applicable, and Tenant shall advise Landlord of any objection within 10 days of receipt of Landlord's notice. Failure to respond within

the 10-day period shall constitute Tenant's acceptance of such Fair Market Rent. If Tenant objects, Landlord and Tenant shall commence negotiations to attempt to agree upon the Fair Market Rent within 30 days of Landlord's receipt of Tenant's notice. If the parties cannot agree, each acting in good faith but without any obligation to agree, then the Lease Term shall not be extended and shall terminate on its scheduled termination date and Tenant shall have no further right hereunder or any remedy by reason of the parties' failure to agree unless Tenant or Landlord invokes the arbitration procedure provided below to determine the Fair Market Rent.

(g) Arbitration to determine the Fair Market Rent shall be in accordance with the Real Estate Valuation Arbitration Rules of the American Arbitration Association. Unless otherwise required by state law, arbitration shall be conducted in the metropolitan area where the Project is located by a single arbitrator unaffiliated with either party. Either party may elect to arbitrate by sending written notice to the other party and the Regional Office of the American Arbitration Association within 5 days after the 30-day negotiating period provided in Paragraph (f), invoking the binding arbitration provisions of this paragraph. Landlord and Tenant shall each submit to the arbitrator their respective proposal of Fair Market Rent. The arbitrator must choose between the Landlord's proposal and the Tenant's proposal and may not compromise between the two or select some other amount. Notwithstanding any other provision herein, the Fair Market Rent determined by the arbitrator shall not be less than, and the arbitrator shall have no authority to determine a Fair Market Rent less than, the Base Rent in effect as of the scheduled expiration of the Lease Term or the First Extension Term, as applicable. The decision of the arbitrator shall be final, binding and non-appealable. The cost of the arbitration shall be paid by Landlord if the Fair Market Rent is that proposed by Landlord, and by Tenant if the Fair Market Rent is that proposed by Tenant; and shall be borne equally otherwise. If the arbitrator has not determined the Fair Market Rent as of the end of the Lease Term or the First Extension Term, as applicable, Tenant shall pay 105 percent of the Base Rent in effect under the Lease as of the end of the Lease Term or the First Extension Term, as applicable, until the Fair Market Rent is determined as provided herein. Upon such determination, Landlord and Tenant shall make the appropriate adjustments

to the payments between them.

(h) The parties consent to the jurisdiction of any appropriate court to enforce the arbitration provisions of this Addendum and to enter judgment upon the decision of the arbitrator.

(i) Except for the Base Rent as determined above, Tenant's occupancy of the Premises during the First Extension Term or the Second Extension Term, as applicable, shall be on the same terms and conditions as are in effect immediately prior to the expiration of the initial Lease Term or the First Extension Term, as applicable; provided, however, Tenant shall have no further right to extend the Lease Term pursuant to this addendum or to any allowances, credits or abatements or options to expand, contract, renew or extend the Lease.

(j) If Tenant does not send the First Extension Notice or the Second Extension Notice, as applicable, within the period set forth in Paragraphs (a) and (b), Tenant's right to extend the Lease Term shall automatically terminate. Time is of the essence as to the giving of the First Extension Notice and the Second Extension Notice, as applicable, and the notice of Tenant's objection under Paragraph (f).

(k) Landlord shall have no obligation to refurbish or otherwise improve the Premises for the First Extension Term or the Second Extension Term, as applicable, but in no event shall Landlord be relieved of its continuing repair, maintenance and other obligations under the Lease. Subject to the foregoing, the Premises shall be tendered on the Commencement Date of the First Extension Term and the Second Extension Term, as applicable, in "as-is" condition.

(l) If the Lease is extended for the First Extension Term or the Second Extension Term, as applicable, then Landlord shall prepare and Tenant shall execute an amendment to the Lease confirming the extension of the Lease Term and the other provisions applicable thereto.

(m) If Tenant exercises its right to extend the term of the Lease for the First Extension Term or the Second Extension Term, as applicable, pursuant to this Addendum, the term "Lease Term" as used in the Lease, shall be construed to include, when practicable, the First Extension Term and the Second Extension Term except as provided in (i) above.

ADDENDUM 4

MISCELLANEOUS PROVISIONS

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED 4/10, 2001, BETWEEN
PROLOGIS CALIFORNIA I LLC
and
SKECHERS U.S.A., INC.

1. COMMENCEMENT DATE LEASE CONTINGENCY. The Commencement Date of this Lease shall be the day following the Rejection Date as defined in the Stipulation Regarding Rejection of Ontario Lease, Including Mutual Releases attached hereto as Exhibit E. If, however, the Rejection Date does not occur on or before May 30, 2001, then this Lease shall automatically terminate and the parties shall be released and discharged from all liability and responsibility hereunder. Landlord shall have no obligation to contract for or fund the Tenant Improvement Allowance referenced in Addendum 2 until this contingency expires or is waived by Landlord and Tenant.

2. FIRST RIGHT OF OPPORTUNITY FOR SINGLE ASSET BUILDING SALE. If during the Term of the Lease Landlord desires to market the Building for Sale as a single asset sale, Landlord grants Tenant, provided that Tenant is not in

default under the Lease, a First Right of Opportunity to negotiate with Landlord for purchase of the Building. If Landlord and Tenant, following good faith negotiations, are unable to agree to terms within ten (10) business days after Landlord's written notice to Tenant, Landlord shall be free to market the Building to third parties without any further obligation to Tenant. This Right of First Opportunity expressly excludes any sale or conveyance in whole or in part of Landlord's interest in the Building if such sale or conveyance of interest is part of or connected in any way with a portfolio sale or conveyance. Such a portfolio sale or conveyance includes i) any transaction involving the Building and any other asset where Landlord (or any other entity with which ProLogis Trust or the New York Common Retirement Fund) has an ownership interest or ii) any conveyance to a third party with whom Landlord or ProLogis Trust has an ongoing business relationship.

3. LANDLORD'S RECAPTURE RIGHT. If during the Term of the Lease Landlord deems it necessary to relocate its existing Ontario branch office, Landlord shall have the right upon 30 days prior written notice to Tenant to recapture a portion of the Premises located at the southwest corner of the Building and consisting of approximately 2,000 s.f. as more fully described on the attached Exhibit A ("Landlord's Office Space"), for purposes of general office use, to be used by Landlord as a branch office for its normal business operations. Landlord shall cause the utilities with respect to Landlord's Office Space to be separately metered (except for water and sewer which shall be jointly metered) and Landlord and Tenant shall pay their respective Proportionate Share of such charges. Landlord shall, at its sole cost and expense, be responsible for any build-out of Landlord's Office Space. Upon the effective date of such recapture of Landlord's Office Space, the monthly Base Rent and Operating Expenses payable by Tenant to Landlord and Tenant's Proportionate Share of the Project and the Building shall be adjusted accordingly in the proportion that Landlord's Office Space bears to the total square footage of the Premises.

EXHIBIT A

SITE PLAN

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED 4/10, 2001, BETWEEN
PROLOGIS CALIFORNIA I LLC
and
SKECHERS U.S.A., INC.

[ILLUSTRATION]

EXHIBIT B

FRONT ENTRANCE SIGN

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED 4/10, 2001, BETWEEN
PROLOGIS CALIFORNIA I LLC
and
SKECHERS U.S.A., INC.

[ILLUSTRATION]

EXHIBIT C

MONUMENT SIGN

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED 4/10, 2001, BETWEEN
PROLOGIS CALIFORNIA I LLC
and
SKECHERS U.S.A., INC.

[ILLUSTRATION]

EXHIBIT D

NAME SIGN

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED 4/10, 2001, BETWEEN
PROLOGIS CALIFORNIA I LLC
and
SKECHERS U.S.A., INC.

[ILLUSTRATION]

EXHIBIT E

STIPULATION REGARDING REJECTION OF ONTARIO LEASE, INCLUDING MUTUAL RELEASES

ATTACHED TO AND A PART OF THE LEASE AGREEMENT
DATED 4/10, 2001, BETWEEN
PROLOGIS CALIFORNIA I LLC
and
SKECHERS U.S.A., INC.

STIPULATION REGARDING REJECTION OF ONTARIO LEASE,
INCLUDING MUTUAL RELEASES

ProLogis California I LLC, as successor to ProLogis Development Services Incorporated (collectively, "ProLogis"), eToys, Inc. ("Inc.") and eToys Distribution L.L.C. ("eToys" collectively with Inc., the "Debtors") hereby enter into this Stipulation Regarding Rejection of Ontario Lease, Including Mutual Releases (the "Agreement") with reference to the following:

I.

RECITALS

A. ProLogis, as landlord, and eToys, as tenant, are parties to that certain Lease Agreement (the "Ontario Lease") dated as of February 28, 2000, pursuant to which eToys leases premises commonly known as ProLogis Park, Milliken Avenue, Ontario, California (the "Premises"). The Premises consist of an entire building, containing approximately 763,228 rentable square feet, together with certain surrounding land, parking areas, and improvements.

B. The Ontario Lease is for a term of 60 months, which commenced on June 9, 2000, and requires eToys to make monthly payments of base rent,

operating expenses, and amortized improvements totaling approximately $258,840.

C. To secure payment of all sums due under the Ontario Lease, ProLogis required, and received from eToys, a security deposit of $2,029,090, which ProLogis continues to possess. Additionally, eToys, Inc., guaranteed the obligations of eToys under the Ontario Lease.

D. The Debtors filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") on March 7, 2001 (the "Petition Date"), thereby commencing their respective bankruptcy cases (collectively, the "Bankruptcy Cases").

E. Since the Petition Date, the Debtors have continued to operate their respective businesses as debtors in possession. However, the Debtors have concluded that it is not possible to reorganize their business and have undertaken to liquidate their assets as quickly as possible.

F. The Debtors have attempted to sell the Ontario Lease, but their efforts have not been successful; the monthly payments due under the Ontario Lease are slightly higher than current fair market rates. The Debtors therefore desire to reject the Ontario Lease pursuant to Bankruptcy Code section 365.

G. ProLogis and the Debtors understand that Skechers USA, Inc. ("Skechers") desires to enter into a new lease with ProLogis, pursuant to which Skechers would lease the Premises for a term greater than the remaining term of the Ontario Lease (the "Skechers Lease"). ProLogis has advised the Debtors that, in order to induce Skechers to enter into the Skechers Lease, ProLogis will have to incur new tenant improvement costs and leasing commission costs in an aggregate amount greater than $1.5 million. In addition to such expenditures, ProLogis is incurring additional damages as a result of eToys' rejection of the Ontario Lease: (i) eToys currently owes ProLogis $10,953.64 on account of underpayments of operating expenses during the year 2000, and (ii) ProLogis will collect approximately $170,000 less rent under the Skechers Lease during the next 50 months than it would have collected under the Ontario Lease. Thus, ProLogis will sustain total mitigation costs and rejection damages of approximately $1,700,000, not including related attorneys' fees and costs.

H. The Debtors and ProLogis desire to settle all claims relating to the Ontario Lease, expedite rejection of the Ontario Lease, and increase the likelihood that Skechers will enter into the Skechers Lease.

I. Certain personal property of the Debtors is located at the Premises. The Debtors and ProLogis understand that Skechers is prepared to enter into the Skechers Lease as of the first calendar day after the Rejection Date, as defined below, and to sublease a portion of the Premises to the Debtors for a term sufficient for them to liquidate or otherwise remove such personal property from the Premises.

II.

STIPULATION

WHEREFORE, based upon the foregoing Recitals for other good and valuable consideration, the receipt of which is hereby acknowledged, ProLogis and the Debtors hereby covenant and agree as follows:

2.1. Rejection of Ontario Lease. The Ontario Lease shall be rejected effective on the first business day after ten days after the date on which an order is entered in the Bankruptcy Cases (the "Rejection Date"); provided that such order has not been appealed.

2.2. Delivery of Premises. The Debtors shall remove all of their

personal property, including all inventory, furniture, fixtures, and equipment, except such personal property as Skechers consents to have remain in or on the Premises for any period after the commencement of the Skechers Lease ("permitted personal property"), before the Rejection Date, and shall deliver the Premises, vacant (except for permitted personal property) and broom-clean, in the same condition as received from ProLogis, ordinary wear and tear excepted, to ProLogis on the Rejection Date.

2.3. Partial Repayment of Security Deposit. Within five business days after the Debtors' performance of their obligations under the preceding paragraph 2.2, and only after they have performed such obligations, ProLogis shall remit payment to the Debtors' bankruptcy counsel of the sum of $1 million less an amount equal to all rent and other amounts payable under the Ontario Lease (at the rate of $8,628.01 per diem), for the period from April 1, 2001 through the later of (a) the Rejection Date and (b) the date the Debtors perform their obligation under the preceding paragraph 2.2.

2.4. Retention of Security Deposit in Satisfaction of Claims. ProLogis shall retain the security deposit received from eToys, net of the payment remitted to Debtors' counsel pursuant to the preceding paragraph 2.3, together with all interest accrued thereon (approximately $15,000),

in full satisfaction of all claims of ProLogis with respect to the Ontario Lease against either of the Debtors.

2.5. Mutual Releases. Upon the performance by the Debtors of their obligations under paragraph 2.2 of this Agreement and the performance by ProLogis of its obligations under paragraph 2.3 of this Agreement, the releases granted in Article III of this Agreement shall be effective and Inc.'s guaranty of the Ontario Lease (the "Guaranty") shall be terminated.

III.

RELEASE AND DISCHARGE OF GUARANTY AND

ALL RELATED CLAIMS

3.1. Release by ProLogis. ProLogis hereby releases and discharges each of the Debtors and their present and former representatives, assigns, shareholders, agents, officers, directors, employees, professionals, and subsidiaries, shareholders and affiliates (collectively, the eToys Parties"), from, and waives and relinquishes any and all Claims (as defined below), which it, or any person or entity claiming from, through or under it, ever had, now has, or hereafter can, shall, or may have against the eToys Parties in any way, manner, or fashion related to (i) the Ontario Lease or the Guaranty as either may have been modified, amended, or supplemented, (ii) any agreements entered into in connection therewith, and (iii) the Bankruptcy Cases.

3.2. Release by the Debtors. Each of Inc. and eToys hereby releases and discharges ProLogis and its predecessors, and each of their present and former representatives, assigns, subsidiaries, partnerships, affiliates, shareholders, agents, officers, directors, employees, and professionals, and each of them (the "ProLogis Parties"), from, and waives and relinquishes, any and all Claims (as defined below), which it, or any person or entity claiming from, through or under it, ever had, now has, or hereafter can, shall, or may have against the ProLogis Parties in any way, manner, or fashion related to (i) the Ontario Lease or the Guaranty as either may have

been modified, amended, or supplemented (ii) any agreements entered into in connection therewith, and (iii) the Bankruptcy Cases.

3.3. "Claim" Defined. As used in this Agreement, the term "Claim" means any and all rights, claims, counterclaims, demands, debts, liabilities, obligations, actions, omissions, causes of action, setoffs, suits, sums of money, accounts, defenses, reckonings, covenants, contracts (whether express or implied, oral or written, or otherwise) and all breach thereof, complaints, objections, controversies, agreements, promises, understandings, breaches of duty or any relationship, malfeasance, nonfeasance, compensation, damages (including actual, consequential, and punitive damages), penalties, costs, losses, expenses or circumstances of every type, kind, nature, description or character and irrespective of how, why, or by reason of whatever facts whether heretofore existing or hereafter arising, or which could, might, or may be deemed to exist, whether known or unknown, suspected or unsuspected, contingent or fixed, liquidated or unliquidated, matured or unmatured, in law, equity, bankruptcy or otherwise, each as though fully set forth herein at length, whether or not the same arises out of contract, tort, fraud, misrepresentation, duress, breach of duty, or violation of laws or regulations.

3.4. California Civil Code Section 1542. EACH PARTY HERETO EXPRESSLY UNDERSTANDS that Section 1542 of the Civil Code of the State of California provides as follows: A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

3.5. Waiver. EACH PARTY TO THIS AGREEMENT HEREBY AGREES THAT THE PROVISIONS OF SECTION 1542 of the Civil Code of the State of California and all similar federal or state laws, rights, rules, or principles, legal or equitable, which may be applicable hereto ARE HEREBY KNOWINGLY AND VOLUNTARILY WAIVED AND RELINQUISHED BY EACH PARTY TO THIS AGREEMENT to the full extent that such

rights and benefits may be waived, and each party to this Agreement hereby agrees and acknowledges that this waiver and relinquishment is an essential term of this Agreement, without which the consideration provided to it would not have been given.

3.6. Subsequently Discovered Claims. In connection with the waiver and relinquishment of the Claims and rights as set forth in this Agreement, each party to this Agreement acknowledges that it is aware that it may hereafter discover Claims presently unknown or unsuspected, or facts in addition to or different from those which it now knows or believes to be true. Nevertheless, it is the intent of each party in executing this Agreement fully, finally, and forever to settle and release all such matters, and all Claims relative thereto, which exist, may exist, or might have existed (whether or not previously or currently asserted in any action) which are the subject of the releases granted by each party under this Agreement.

IV.

CONDITIONS TO EFFECTIVENESS

This Agreement shall be effective only upon the satisfaction of each of the following conditions:

4.1. Entry of a final order in the Debtors' respective Bankruptcy Cases approving, authorizing, and directing the Debtors to enter into this Agreement, which order shall not have been appealed.

4.2. Execution and delivery by Skechers to ProLogis, and acceptance by ProLogis of the Skechers Lease in a form acceptable to ProLogis in its sole discretion.

4.3. Occurrence of the Rejection Date on or before May 10, 2001.

V.

REPRESENTATIONS AND WARRANTIES

The parties hereby represent, warrant, and agree with one another as follows:

5.1. Representation by Counsel. Each party acknowledges that it has been represented by counsel of its choice throughout the negotiations which preceded the execution of the

Agreement, and in connection with the preparation and execution of this Agreement, each party acknowledges that it has executed this Agreement voluntarily, without coercion or duress of any kind, and on the advice of its independent counsel.

5.2. No Reliance. Neither party, nor any person acting on its behalf, has made any statement or representation to the other party regarding any fact relied upon in entering into this Agreement, and the parties do not rely upon any statement, representation, or promise of the other party or other person acting on behalf of the other party in making the settlement provided for herein, except as expressly stated in this Agreement.

5.3. Independent Investigation. Each party has made such investigation of the facts pertaining to this Agreement, and of all the matters pertaining thereto, as it deemed necessary.

5.4. Comprehension. Each party has read this Agreement and understand its contents.

5.5. Construction. Each party has cooperated in the drafting and preparation of this Agreement. Hence, this Agreement shall not be construed against any party.

5.6. No Transfer of Claims. Each party warrants and represents that there has been no assignment, sale, or transfer, by operation of law or otherwise, of any Claim to be released by the release contained herein. The parties agree to indemnify, defend, and hold harmless each other party from any claim, liability, or expense which may be incurred as a result of the assertion of any such Claim by any other person by reason of such assignment, sale, or transfer.

5.7. Authority. Each party has taken all appropriate corporate action to authorize execution of this Agreement and grant the releases contained herein, and the peon executing this Agreement on behalf of each respective party has full authority to do so.

VI.

MISCELLANEOUS

6.1. Complete Agreement. This Agreement represents the complete agreement among the parties, and supersedes all prior and contemporaneous agreements, understandings, and

representations, if any. This Agreement may only be amended or modified by a written agreement executed by all of the parties.

6.2. Attorneys' Fees and Expenses. In any litigation or other

proceeding arising out of or relating to this Agreement, the prevailing party or parties shall recover all attorneys' fees and other expenses and costs incurred in connection with the litigation or other proceeding.

6.3. Governing Law. This Agreement shall be governed by the substantive laws of the State of California (without regard to any doctrine of conflict of laws).

6.4. Headings. The headings of the articles and sections of this Agreement have been inserted for convenience of reference only and shall not modify, define, or limit any of the terms or provisions hereof.

6.5. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and assigns.

6.6. No Third Party Beneficiaries. The provisions of this Agreement are for the benefit of the parties hereto and the released parties identified in Article III hereof, and not for any other person, and may not enforced or relied upon by any person other than the parties and the parties released under Article III hereof.

6.7. Severability. If any provision of this Agreement is declared by a court of competent jurisdiction to be illegal, unenforceable, or void, that provision shall be modified so as to be enforceable and as nearly as possible to reflect the original intention of the applicable parties, it being agreed and understood by the parties hereto that (a) this Agreement and all the provisions hereof shall be enforceable in accordance with their respective terms to the fullest extent permitted by law; and (b) the remainder of this Agreement shall remain in full force and effect.

PROLOGIS CALIFORNIA I LLC, as successor to PROLOGIS DEVELOPMENT SERVICES INCORPORATED

By:

Name:
Title:

ETOYS, INC.

By:

Name:
Title:

ETOYS DISTRIBUTION L.L.C.

By:

Name:
Title:

Approved as to form and content:

MAYER, BROWN & PLATT
KIMBERLY S. WINICK

By:

Kimberly S. Winick

Attorneys for ProLogis California I LLC,

as successor to ProLogis Development
Services Incorporated

IRELL & MANELLA
HOWARD J. STEINBERG

By:

Howard J. Steinberg

Attorneys for eToys, Inc. and eToys Distribution L.L.C.

Exhibit 21.1

Subsidiaries of the Registrant

Name of Subsidiary	State/Country of Incorporation/Organization
Skechers By Mail, Inc.	Delaware
Skechers U.S.A., Inc. II	Delaware
Skechers U.S.A. Ltd.	England
Skechers U.S.A. SAS	France
Skechers U.S.A. Deutschland GmbH	Germany
Skechers S.a.r.l.	Switzerland
Skechers International	Switzerland
Skechers International II	Switzerland
Skechers U.S.A., Inc., Taiwan Branch	Taiwan
Skechers Collection LLC	California
Skechers Sport LLC	California
Duncan Investments, LLC	California
Yale Investments, LLC	Delaware

Exhibit 23.1

Independent Accountants' Consent

We consent to incorporation by reference in the registration statement (No. 333-71114) on Form S-8 of Skechers U.S.A., Inc. of our report dated February 13, 2002, relating to the consolidated balance sheets of Skechers U.S.A., Inc. and subsidiaries as of December 31, 2000, and 2001, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flow for each of the years in the three-year period ended December 31, 2001, and the related financial statement schedule, which report appears in the December 31, 2001 annual report on Form 10-K of Skechers U.S.A., Inc.

Los Angeles, California
March 29, 2002