

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
**FORM 10-K**

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

95-4376145  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

228 MANHATTAN BEACH BLVD.  
MANHATTAN BEACH, CALIFORNIA  
(ADDRESS OF PRINCIPAL EXECUTIVE  
OFFICES)

90266  
(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  
Class A Common Stock, \$0.001 par value

NAME OF EACH EXCHANGE  
ON WHICH REGISTERED  
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  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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

As of June 30, 2003, the aggregate market value of the Class A and Class B Common Stock held by non-affiliates of the Registrant was approximately \$155 million based upon the closing price of \$7.40 of the Class A Common Stock on the New York Stock Exchange on such date.

The number of shares of Class A Common Stock outstanding as of March 9, 2004 was 20,422,423.

The number of shares of Class B Common Stock outstanding as of March 9, 2004 was 17,786,561.



**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Definitive Proxy Statement issued in connection with the 2004 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III.

---

## **TABLE OF CONTENTS**

### **PART I**

**ITEM 1. BUSINESS**

**ITEM 2. PROPERTIES**

**ITEM 3. LEGAL PROCEEDINGS**

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

### **PART II**

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

**ITEM 6. SELECTED FINANCIAL DATA**

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

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

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

**ITEM 9A. CONTROLS AND PROCEDURES**

### **PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

**ITEM 11. EXECUTIVE COMPENSATION**

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

### **PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

**SIGNATURES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**EXHIB 10.9(a)**

**EXHIBIT 10.10(h)**

**EXHIBIT 10.10(i)**

**EXHIBIT 10.10(j)**

**EXHIBIT 10.10(k)**

**EXHIBIT 10.10(l)**

**EXHIBIT 10.13(a)**

**EXHIBIT 10.18**

**EXHIBIT 10.18(A)**

**EXHIBIT 10.27(a)**

**EXHIBIT 10.28(a)**

**EXHIBIT 21.1**

**EXHIBIT 23.1**

**EXHIBIT 31.1**

**EXHIBIT 31.2**

**EXHIBIT 32**

---

	<u>PAGE</u>
PART I	
Item 1. Business	4
Item 2. Properties	23
Item 3. Legal Proceedings	24
Item 4. Submission of Matters to a Vote of Security Holders	25
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters	25
Item 6. Selected Financial Data	26
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7a. Quantitative and Qualitative Disclosures About Market Risk	37
Item 8. Financial Statements and Supplementary Data	38
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	38
Item 9a. Controls and Procedures	38
PART III	
Item 10. Directors and Executive Officers of the Registrant	38
Item 11. Executive Compensation	38
Item 12. Security Ownership of Certain Beneficial Owners and Management	38
Item 13. Certain Relationships and Related Transactions	38
Item 14. Principal Accountant Fees and Services	39
PART IV	
Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K	39
Signatures	43
Consolidated Financial Statements	F-1

## 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.

We were incorporated in California in 1992 and reincorporated in Delaware in 1999. Our Internet website address is [www.skechers.com](http://www.skechers.com). We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4, and 5 filed on behalf of directors and executive officers, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, available free of charge on our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the “SEC”). You can learn more about us by reviewing such filings on our website or at the SEC’s website at [www.sec.gov](http://www.sec.gov).

#### GENERAL

We design and market Skechers-branded contemporary footwear for men, women and children under seven individual brand names. We also offer a designer line for women, a high-end men’s line, a men’s urban-focused specialty line, and a licensed urban-targeted men’s, women’s and children’s line — all branded and marketed separately to appeal to a unique audience. Our footwear reflects a combination of style, quality and value that appeals to a broad range of customers. Our shoes are sold through department stores, specialty stores, athletic retailers and independents as well as our own retail stores, and our e-commerce website. Our objective is to profitably grow our operations worldwide while leveraging our recognizable brand through our strong product lines, licensed apparel and accessories, innovative advertising and diversified distribution channels.

We seek to offer consumers a vast array of fashionable footwear that satisfies their active, casual, dress casual and dress footwear needs. Our product offerings are organized within 15 distinct collections. Our core consumers are style-conscious 12- to 24-year-old men and women attracted to our youthful brand image and fashion forward designs. Over the last several years, we have broadened our customer base by expanding several footwear lines, including Michelle K and Somethin’ Else from Skechers, and introducing new lines, such as the high-end men’s line Mark Nason, Somethin’ Else from Skechers for Girls, the urban-based 310 Motoring Footwear, and Marc Ecko/Rhino Red footwear for men, women and children. Many of our best-selling and core styles are also developed for children with colors and materials that reflect a playful image appropriate for this demographic.

We believe that brand recognition is an important element for success in the footwear business. We have aggressively promoted the Skechers brand through a comprehensive marketing campaign. In 2003, we developed product-focused lifestyle domestic and international print ads for men and women that incorporated several of our lines, including Skechers Sport, Skechers Collection and Somethin’ Else from Skechers. Many of these same styles were also seen in our Skechers adult television campaign. For children, we updated our animated television spot to effectively reach kids with fresh product. As part of our international strategy, we launched ads incorporating celebrity Christina Aguilera. In addition, we developed product ads for the launch of Mark Nason and ads featuring designer Michelle K for her line. Our strategy continues to focus on print advertisements in targeted publications such as *GQ*, *Maxim*, *Vogue*, *Elle*, *Teen People* and *Seventeen*, and is supported by television commercials for adults and children aired on major networks and leading cable channels such as MTV, ESPN and Nickelodeon.

#### Product Lines

Since we introduced our first Skechers-branded line, Skechers USA Sport Utility Footwear, in December 1992, we have expanded our product offering and grown our net sales while substantially increasing the breadth and penetration of our account base. Each of our Skechers-branded product lines benefits from the Skechers reputation for contemporary and progressive styling, quality, comfort, and affordability. Our product lines that are not branded with the Skechers name benefit from our marketing support, quality management and expertise. To promote innovation and brand relevance, we manage our product lines separately by utilizing dedicated

## [Table of Contents](#)

sales and design 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 four types of footwear: (i) Casuals and Classics, (ii) Dress Casuals (for men only), (iii) Comfort (for men only), and (iv) Outdoor (for men only).

- The Casuals category includes "black and brown" boots and shoes that generally have a rugged urban design — some with industrial-inspired fashion features and some women's styles with comfort-inspired designs. This category is defined by the heavy-lugged outsole and value-oriented materials employed in the uppers. Also in this grouping is the Classics category of boots and shoes, which are marked by softer outsoles constructed of polyvinyl carbon (PVC). We design and price these categories to appeal primarily to young persons with broad acceptance across age groups. Suggested retail price points range from \$45.00 to \$100.00 for this category.
- The Dress Casuals category is comprised of basic "black and brown" men's shoes that feature shiny leathers and dress details, but still utilize the heavy-lugged outsole and value-oriented materials. This category is designed and priced for young men seeking their first work or evening shoe. Suggested retail price points range from \$50.00 to \$65.00 for this category.
- Skechers Comfort is a line of trend-right casuals for men who want all-day comfort without compromising style. Characteristics of the line include comfortable outsoles, cushioned insoles and quality leather uppers. Marketed in its own box, 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 \$50.00 to \$75.00 for this category.
- Our Outdoor styles for men primarily consist of hiker-influenced constructions that include boots and shoes. While this category includes many technical performance features, we market it primarily on the basis of style and comfort. 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 include: gusseted 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 more durable hardware such as metal D-rings instead of eyelets. Uppers are generally constructed of heavily oiled nubuck and full-grain leathers. Marketed in its own box, Outdoor is intended to be available in mid-tier and better department stores as well as specialty shops. Suggested retail price points range from \$45.00 to \$75.00 for this category.

Skechers Sport. Our Skechers Sport footwear for men and women includes: (i) Joggers, Trail runners, Sport hikers, Terrainers, (ii) Performance, and (iii) Street Casuals. Our Skechers Sport category is distinguished by its technical performance-inspired looks; generally, however, we do not promote the technical performance features of these shoes.

- Our Jogger, Trail runner, Sport hiker and cross trainer-inspired Terrainers designs are lightweight constructions that include cushioned heels, polyurethane midsoles, and phylon and other synthetic outsoles, as well as 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 pop colors in addition to the traditional athletic white. The Jogger, Trail runner, Sport hiker and Terrainers 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.
- The Performance category is comprised of multi-purpose running shoes that are marketed as lifestyle athletic footwear that can be used as a multi-purpose performance shoe. Some styles include: 3M reflective accents, breathable upper construction, quality leathers, abrasion-resistant toe and heel cap, removable moisture wicking molded EVA sockliner, outsole forefoot flex grooves for improved flexibility, non-marking rubber lugs with IDT (Impact Dispersment Technology), aggressive all terrain traction lugs, external torsion stabilizer, and tuned dual-density molded Ethyl Vinyl Acetate (EVA) midsole with pronation control. The performance styles are marketed through athletic footwear specialty retailers as well as basic existing accounts. Suggested retail price points range from \$50.00 to \$60.00 for this category.
- Street Casual incorporates lower profiles, classic details and skate and street influences in a collection of essential, basic casual sneakers. The uppers are designed in leather, suede, nubuck and/or mesh. Street Casual is targeted to young consumers, but also appeals to a broader demographic. The line is marketed through department and specialty stores. Suggested retail price points range from \$45.00 to \$55.00 for this category.

## [Table of Contents](#)

Skechers Collection. The Skechers Collection line includes (i) stylish dress and dress casual, and (ii) EuroCasual shoes for the young fashion-forward male consumer. In addition to basic “essential” styles, this category is comprised of more sophisticated designs influenced, in part, by prevailing trends in Italy and other European countries. Given the look, style and quality, this footwear is primarily sourced from Italy.

- Our dress and dress casuals include classic tailored and fashion-forward square, round 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 leather or man-made. The uppers are high-quality leathers including glossy, “box,” distressed, and aniline. Suggested retail price points range from \$60.00 to \$155.00 for this category.
- EuroCasual blends dress styling with European influences to create a versatile and comfortable casual shoe. Marked by leather and stitch details and unique styling, the EuroCasual collection of sneakers, oxfords and slip-ons features high-quality leather and suede materials in multiple colorations, and sport-inspired rubber outsoles. Suggested retail price points range from \$65.00 to \$100.00 for this category.

Somethin’ Else from Skechers. Targeting 12- to 25-year-old trend-savvy females, Somethin’ Else from Skechers focuses on current fashions with an array of stylish shoes, boots, heels and sandals. With a growing offering that includes flats, heeled boots, clogs and sport-influenced looks, the line is designed to meet junior consumers’ needs – from school to work to weekends to the prom – and is a complementary line for juniors who already wear Skechers USA and Skechers Sport. Many styles are made from more affordable materials such as man-made leather, offering more young consumers the opportunity to buy trend-right shoes at affordable prices. This line is typically retailed through department and specialty stores. Suggested retail price points range from \$20.00 to \$70.00 for this category.

Skechers Active. Skechers Active is a line of everyday casual sneakers for females of all ages. Predominately a white-leather based line with bright and pastel pop colors, the line has grown to include select solid color styles and unique fabric treatments such as chrome and perforated metallic. Active sneakers are typically retailed through specialty casual shoe stores and department stores. Suggested retail price points range from \$30.00 to \$55.00 for this category.

Skechers Work. Expanding on our heritage of cutting-edge utility footwear, Skechers Work offers a complete line of men’s and women’s oxfords, boots, trail hikers and sport athletics. The Skechers Work line includes (i) Steel Toe, (ii) Work and (iii) Slip-Resistant categories. Our steel toe, electrostatic-dissipative, and electrical hazard technologies have been independently tested and certified to meet ANSI standards, and our slip-resistant soles have been tested pursuant to the Slip Resistance ASTM F 1677-96 (Mark II Machine). The uppers are in high-quality leather, nubuck and durabuck. Constructed on high-abrasion, long wearing soles, the line is designed for men and women with jobs that require certain safety requirements. Skechers Work is primarily marketed through business-to-business channels, but is also available direct-to-consumers and through select department and specialty stores.

- The Skechers steel toe category of sneakers, hikers, oxfords and boots is ideal for environments requiring safety footwear or tough terrain. These durable styles feature breathable lining, oil- and abrasion-resistant outsoles and steel toe design for optimal protection, all-day comfort and prolonged durability. Some styles also offer electrical hazard, electrostatic-dissipative and water-resistant features. Suggested retail price points range from \$50.00 to \$100.00 for this category.
- The Skechers Work line of boots, oxfords and hikers offers versatile features for those requiring utility, safety and comfort features, but who also want style. Designed with an array of textured uppers and colorways, the footwear capitalizes on function and comfort – from breathable lining to contoured insoles and abrasion-resistant outsoles for prolonged wear. Suggested retail price points range from \$47.00 to \$100.00 for this category.
- Ideal for the service industry, the Skechers Slip-Resistant line of boots, oxfords and sneakers offers comfort and safety in dry or wet conditions – from breathable lining to Mark II-tested slip-, oil- and abrasion-resistant outsoles for optimal safety and reliability. Electrostatic-dissipative features are also available on select styles. Suggested retail price points range from \$50.00 to \$65.00 for this category.

Michelle K. Targeted toward stylish 18- to 34-year-old women, Michelle K is a signature designer line comprised of (i) high-fashion boots, pumps and flats, and (ii) Michelle K Sport, an expanded division of sport shoes. Head designer and visionary Michelle Kelchak derives her inspiration from her extensive travels, which is evident in her collections that reflect the latest European, Asian and American trends and fashions. Michelle K and Michelle K Sport are marketed to consumers separate from Skechers in the United States.



## [Table of Contents](#)

- Made predominately with fine European materials and craftsmanship, Michelle K is marked by high-grade leathers, fine detailing and design, and flattering silhouettes, including sculpted and lower kitten heels. Most styles are crafted in Italy, Portugal and Spain, with others made in Brazil. The line is available in better department stores and boutiques. Suggested retail price points range from \$120.00 to \$300.00 for this category.

- Michelle K Sport is a growing line of fashion-inspired designer EuroSport casuals marked by a unique combination of materials, textures and colors. The low-profile looks are designed as a complementary casual line for women who already wear Michelle K fashion and dress footwear, and are marketed to the same better department stores and boutiques as well as select department stores and specialty retailers. Suggested retail price points range from \$70.00 to \$90.00 for this category.

Mark Nason. Launched in 2003, Mark Nason is a sophisticated and forward footwear collection targeting men with discerning style. The line is comprised predominately of stylish dress casual and dress oxfords, slip-ons and boots, but also includes a unique grouping of sandals and fashion sneakers. Signature to the Mark Nason line is the premium leathers, the high quality and style. In this collection, look for unusual hand-treated leather uppers and soles, fine leathers, distinctive shapes, unique closures, and a variety of colorations. Such characteristics have included, and may include in the future genuine python or eel boots, hand-treated, hand-scraped and hand-cut leathers, and jute and rubber compounds. The majority of the Mark Nason shoes are constructed in Italy. The Mark Nason line is marketed to consumers separate from Skechers. It is available in better department stores and boutiques. Suggested retail price points for this line range from \$100.00 to \$600.00.

Skechers Kids. The Skechers Kids line includes: (i) a range of infants/toddlers, boys and girls boots, shoes and sneakers; (ii) S-Lights, lighted footwear for toddlers, boys and girls; and (iii) Somethin' Else from Skechers for Girls, trend-inspired boots, shoes, sandals and dress sneakers. Skechers Kids and Somethin' Else from Skechers for Girls are comprised primarily of shoes that are designed as "takedowns" of their adult counterparts, allowing the younger set the same popular styles as their older siblings and schoolmates. This "takedown" strategy maintains the product's integrity by offering premium leathers, hardware and outsoles without the attendant costs involved in designing and developing new products. In addition, we adapt current fashions from our men's and women's lines by modifying designs and choosing colors and materials that are more suitable for the playful image we have established in the children's footwear market.

- Utilizing our takedown strategy, the Skechers Kids line includes variations on Skechers Sport, Skechers USA, Skechers Collection, and Skechers Active adult shoes. Skechers Kids styles are also adapted for toddlers with softer, more pliable outsoles, and for infants with soft, leather sole crib shoes. Skechers Kids shoes are available at department stores and specialty and athletic retailers. Our children's footwear is offered at retail prices ranging from \$18.00 to \$50.00.

- S-Lights is a line of lighted sneakers, which combines a sequence of patterns and lights on the outsole and other areas of the shoes. S-Lights are intended to be marketed in the same retail stores as Skechers Kids. Our lighted footwear is offered at retail prices ranging from \$30.00 to \$45.00.

- Somethin' Else from Skechers for Girls is a line of trend-right sandals, shoes, boots, street sneakers and dress casuals for young girls. For this line, we have taken many of our successful junior bottoms, tailoring them to the demographic with lower platforms and wedges as needed, and largely giving the shoes all new upper treatments and colors designed to appeal to girls. Many styles are made from more affordable materials such as man-made leather, offering more young consumers the opportunity to buy stylish shoes. A complementary line for girls who already wear Skechers Kids, Somethin' Else from Skechers for Girls is available in department and specialty stores, and retails at prices ranging from \$20.00 to \$45.00.

## LICENSED BRANDS

310 Motoring. Brought to market in 2003 with an expected delivery of before back-to-school 2004, the 310 Motoring footwear collection utilizes top-quality leathers, a fashion-forward approach to design and comfort, and materials that are derived from 310 Motoring's customized cars, including wood burl and carbon fiber. A multi-tiered approach, the line consists of three categories: "Bel Cavallo," high-end, cutting-edge athletics; "Motoring," heritage to high-tech stylish boots and shoes; and "Racing," sophisticated driving-inspired shoes and boots. 310 Motoring footwear will be marketed to consumers separate from Skechers and will be made available in select department stores, specialty retailers and urban independents. Suggested retail price points range from \$80.00 to \$150.00 for this category.

## [Table of Contents](#)

Marc Ecco and Rhino Red Footwear. Brought to market in late 2003 with a product delivery date of Spring 2004, Marc Ecco Footwear for men and Rhino Red for women is a line of urban- and street-inspired sneakers, joggers and shoes, with an assortment of fashion sandals, heels and boots for women. Targeted to the street-savvy 18- to 34-year-old consumer, the footwear reflects Ecco Unlimited's men's apparel and the Ecco Red women's apparel, and effectively utilizes the globally recognized Rhino logo on the majority of sneakers and casuals. The line will be marketed to consumers separate from Skechers and will be made available in select department stores, specialty retailers and urban independents. Suggested retail price points for Marc Ecco Footwear for men is \$70.00 to \$100.00. Suggested retail price points for the Rhino Red line for women is \$45.00 to \$130.00.

## 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. Targeted to the active, youthful and style-savvy, we design most new styles to be fashionable and marketable to the 12- to 24-year old consumer, while substantially all of our lines appeal to the broader range of 5- to 40-year old consumers, with an exclusive selection for infants and toddlers. 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 products' success is related to our ability to recognize trends in the footwear markets and to design products that anticipate and accommodate consumers' ever-evolving preferences. We are able to quickly translate the latest trends into stylish, quality footwear at a reasonable price. We strive to analyze, interpret and translate current and emerging lifestyle trends. Lifestyle trend information is compiled and analyzed by our designers from various sources that monitor trends in culture and society, including the review and analysis of modern music, television, cinema, clothing, alternative sports and other trend-setting media; travel to domestic and international fashion markets to identify and confirm current trends; consultation with our retail customers for information on current retail selling trends; participation in major footwear trade shows to stay abreast of popular brands, fashions and styles; and subscription to various fashion and color information services. In addition, a key component of our design philosophy is to continually reinterpret and develop 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 primarily by our in-house design 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 internal design efforts. The design process is extremely collaborative; members of the design staff frequently meet with the heads of retail, merchandising, sales, production and sourcing to further refine our products to meet the particular needs of our the target market.

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 manufacturers for a design prototype. The design prototypes are then sent back to our design teams. Our major retail customers may also review these new design concepts. 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 and we share this sales information with our wholesale accounts. We closely monitor sales activity after initial introduction of a product to determine 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, sales, merchandising, production and allocations management monitor weekly sales 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 can take from six months to nine months from design concept to commercialization.

## SOURCING

## [Table of Contents](#)

**Factories.** Our products are produced by independent contract manufacturers primarily located in China and, to a lesser extent, in Italy, Vietnam, Brazil and various other countries. We do not own or operate any manufacturing facilities with the belief that the use of independent manufacturers increases our production flexibility and capacity while at the same time substantially reducing capital expenditures and avoiding 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 2003, we had four manufacturers that accounted for approximately 49.9% of total purchases. One manufacturer accounted for 24.6% of our total purchases during the year ended December 31, 2003. To date, we have not experienced difficulty in obtaining manufacturing services.

We maintain an in-stock position for various styles of footwear in order to minimize the time necessary to fill customer orders. For styles with high sell through percentages we will maintain an in-stock position, placing 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 assess demand for our products by soliciting input from our customers, including their retail sell through rates, and monitor retail sell-through at our own retail stores. Through the analysis of historical and current sales and market data we develop an internal product quantity forecast which helps us manage our inventory levels.

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% 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 170-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. Our quality control personnel located in China 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 production. For some of our lower volume manufactures, our staff is on-site during significant production runs or we will perform unannounced visits to their manufacturing sites to further monitor compliance with our manufacturing specifications.

## ADVERTISING AND MARKETING

With a marketing philosophy of "Unseen, Untold, Unsold," we take a targeted approach designed to drive traffic, build brand recognition and properly position our diverse lines within the marketplace by highlighting key styles in lifestyle settings. Senior management is directly involved in shaping our image and the conception, development and implementation of our advertising and marketing activities. The focus of our marketing plan is print and television advertising, with support from radio, billboard, mall kiosk, public relations and product placement. We continue to adjust our advertising budget to be consistent with projected sales, targeting approximately 8% to 10% of annual net sales for our marketing, advertising and trade show efforts.

The majority of Skechers advertising is conceived and designed by our in-house team. 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 image, while realizing substantial savings compared to using outside agencies.

## [Table of Contents](#)

We believe that our advertising strategies, methods and creative campaigns are directly related to our success. Our in-house advertising team has developed a comprehensive program to promote the Skechers brand through edgy lifestyle- and image-driven advertising. While all of our advertisements feature our footwear, they generally seek to build and increase brand awareness by linking Skechers to youthful, contemporary lifestyles and attitudes rather than to market a particular footwear product. Our ads are designed with a broad approach to eliminate single categorization and to provide merchandise flexibility and facilitate the brand's and product design's direction of evolving footwear fashions and consumer preferences. Our 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 *Elle*, *Details*, *Seventeen*, *Maxim*, *People*, *Teen People*, *Rolling Stone*, *YM*, and many others.

To further build brand awareness and influence consumer spending, we have selectively signed endorsement agreements with celebrities we felt would reach new markets. In 2003, we signed an international endorsement agreement with global superstar Christina Aguilera for our women's lines. In recent years we had similar endorsement agreements with singer and actress Britney Spears, professional basketball player and actor Rick Fox, and actors Robert Downey, Jr., Matt Dillon and Rob Lowe. From time to time, we may sign other celebrities to endorse our brand name and image in order to strategically market our products among specific consumer groups in the future.

In addition to advertising our Skechers branded lines through men's, women's and children's ads, we also support our Michelle K, Mark Nason, and now 310 and Marc Ecko/Rhino Red lines through individual unique print advertisements in targeted books such as *Vogue*, *Maxim* and *XXL*. Designer Michelle K appears in the advertisements for her line, which we believe is creating a more personable and relatable brand to consumers while establishing her as a celebrity designer.

Our progressive television advertisements are primarily produced in-house and air during key selling seasons on top television shows on major networks and cable channels. We create different campaigns targeted to our 5- to 11 and 12- to 24-year-old consumer groups. Our in-house media buyer strategically selects the ideal programs and geographic areas for our commercials for maximum consumer impact.

### Promotions

By applying creative sales techniques via a broad spectrum of mediums, the promotions team seeks to build brand recognition and drive traffic to Skechers retail stores and our retail partners' locations, serving as a catalyst for increased product sales. Skechers' promotional strategies have encompassed in-store specials, concert promotions, charity events, product tie-ins and giveaways, and collaborations with national retailers and radio stations. Our imaginative promotions are consistent with Skechers' imaging and lifestyle.

### Public Relations

Our public relations team's objectives are to garner positive and accurate press on our company, to secure product placement in key fashion magazines, and place our footwear on the feet of trend-setting celebrities.

Domestic and international fashion and footwear trade publications, business magazines, and television news shows consistently report on Skechers events and news items. Such stories include Skechers on *Fortune*'s 100 Fastest Growing Companies list and Robert Greenberg and Michael Greenberg on *Footwear News*'s The Power 50.

Through our commitment to aggressively promote our upcoming styles, our products are often featured in leading fashion and pop culture magazines, as well as in select films and popular television shows. In addition to a high-profile scene at a Skechers retail store in the award-winning movie *Thirteen*, our footwear has been prominently displayed and referenced on *The Today Show*, *Good Morning America*, *Good Day Live*, *E! Style*, *VH1*, *MTV* and *Extreme Dating*, among others, and has amassed an array of prominent product placements in magazines including *Rolling Stone*, *Lucky*, *GQ*, *YM*, *Seventeen*, *Teen People*, *Teen Vogue*, *Maxim*, *InStyle* and *Footwear News*. In addition, the Skechers brand has been associated with cutting edge events and select celebrities, and our product has been seen worn by trend-setters like Vin Diesel, Britney Spears, Paris Hilton, Jeff Goldblum, Melissa Joan Hart, Farrah Fawcett, Elijah Wood, among others.

### Trade Shows

To better showcase our diverse products to footwear buyers in the United States, Europe and distributors around the world, we exhibited at the leading trade shows during 2003. This growing list includes WSA's The Shoe Show, FFANY and MAGIC in the

## [Table of Contents](#)

United States, and GDS, MICAM and Who's Next in Europe. Our dynamic, state-of-the-art trade show exhibits, which are developed by our in-house architect and feature our latest product offerings, are specially designed and built to accommodate each trade show and are enhanced with lifestyle images reflective 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. For select non-Skechers branded lines such as Michelle K, we have created individual exhibits to ensure the brand integrity. Our innovative exhibits have won numerous awards, including Best Booth Design at the WSA Shoe Show, February 2001 and February 2003. For FFANY, we show in our own New York showroom as is common during this show.

### Internet

We also promote our brand image through our e-commerce website at [www.skechers.com](http://www.skechers.com) to customers who 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.

In addition, in 2003 we launched unique websites for Michelle K and Mark Nason. Both sites are designed to serve as marketing tools, properly imaging the brand while also informing customers.

### Visual Merchandising

Our in-house visual 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 visual merchandising coordinators (VMC's) work with our sales force and directly with our customers to ensure better sell-through at the retail level by generating greater consumer awareness by providing Skechers brand displays.

Our coordinators communicate with and visit our wholesale customers on a regular basis to aid in proper visual display of our merchandise. They distribute point-of-purchase items such as signage, graphics, displays, counter cards, banners, and other merchandising items. These materials mirror the look and feel of our national print advertising in order to reinforce brand image at the point-of-purchase. The VMC's also run in-store promotions to enhance the sale of Skechers footwear and create excitement surrounding the Skechers brand. We believe that 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. We have concept shops in over 60 major accounts, which are exclusive selling areas within stores that offer our products and incorporate Skechers signage and customized fixture designs. Through our visual merchandising efforts we are able to enhance brand recognition and ensure the consistent presentation of our products in our wholesale customers' stores by providing high end custom displays.

## DOMESTIC SALES AND DISTRIBUTION

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 formats of our retail stores — concept stores, factory outlet stores and warehouse outlet stores — serve an integral function in the domestic distribution of our products.

### Wholesale Distribution

We distribute our footwear through the following wholesale distribution channels; department stores, specialty stores, athletic shoe stores and independent retailers. Although the departments stores and specialty retailers are the largest distribution channels, we believe that our distinct product lines 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 customers. Management has a clearly defined growth strategy for each of our channels of distribution. An integral component of our strategy is to offer our accounts the highest level of customer service so that our products will be fully represented in existing retail locations and new locations within each account.

## [Table of Contents](#)

In an effort to provide knowledgeable and personalized service to our wholesale accounts, the sales force is segregated by product line, each headed by a national or regional sales manager. Reporting to each sales manager are knowledgeable account executives and territory managers. Our national and regional sales managers report to our vice president of sales. All of our national and regional sales managers are compensated on a salary basis, while our account executives and territory managers are compensated on a commission basis. None of our domestic sales personnel sell competing products.

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-throughs. Our visual merchandise coordinators 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 our 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 store 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, 2003, we operated 40 concept stores, 42 factory outlet stores and 32 warehouse outlet stores in the United States. We currently have plans to open four domestic retail stores in 2004.

- **Concept Stores.** Our concept stores are located at either marquee street locations or in major shopping malls in large metropolitan cities. Our concept stores have 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 in a cutting-edge, open-floor setting, providing the customer with the complete Skechers story. In contrast, we estimate that our average wholesale customer carries no more than 5% of the complete Skechers line in any one location. 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 at Times Square and 34th Street in New York, Santa Monica's Third Street Promenade, Universal CityWalk, Las Vegas' Fashion Show Mall, and Woodfield Mall outside Chicago. 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. We believe that product sell-through information and rapid customer feedback derived from our concept stores enables our design, 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.

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 1,200 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, sales volume 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 five new concept stores in 2002 and eight in 2003, including the first Michelle K store on fashionable Robertson Boulevard in Los Angeles.

- **Factory Outlet Stores.** Our factory outlet stores are generally located in manufacturers' direct 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 9,000 square feet. Inventory in these stores is supplemented by certain first-line styles sold at full retail price points, generally \$60.00 or lower. We opened five new factory outlet stores during 2002 and eight new factory outlet stores during 2003.

## [Table of Contents](#)

- 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 5,200 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 2002 and nine new warehouse outlet stores during 2003.

Electronic Commerce. Our electronic commerce sales represented less than 1.0% of total net sales for each of 2002 and 2003. Our website, [www.skechers.com](http://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

Our products are sold in more than 100 countries and territories throughout the world. We generate revenues from outside the United States from four principal sources: (1) sales of our footwear 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 Canada, France, Germany, Spain, Italy, Portugal, Switzerland, Austria, the Benelux Region and the United Kingdom, we sell footwear directly to department stores and specialty retail stores; (3) in France, Germany, the United Kingdom, the Netherlands, Spain and Canada through retail stores that we own and operate; and (4) 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 sales and profits. We intend to further increase our share of the international footwear market by heightening our marketing presence in those countries, in which we currently have a presence, through our international advertising campaigns, which are designed to establish Skechers as a global brand synonymous with trend-right casual shoes.

### Europe

We have historically sold our footwear to selected wholesale customers in Europe through our foreign distributors. In 2001, we began expanding our European operations 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. By the end of 2002, we had organized Skechers U.S.A. Ltd., with its offices and showrooms in London, England; Skechers S.a.r.l., with its offices and showrooms in Lausanne, Switzerland; Skechers U.S.A. France SAS with its offices and showrooms in Paris, France; Skechers U.S.A. Deutschland GmbH with its offices and showrooms in Dietzenbach, Germany; Skechers USA Iberia, with its offices and showrooms in Madrid, Spain; and Skechers USA Benelux B.V. with its offices and showrooms in Waalwijk, the Netherlands. Each of these subsidiaries was formed to establish direct control over wholesale distribution, merchandising, and marketing of our products in their respective countries of organization, as well as certain surrounding countries.

In February 2003, we established Skechers USA Italia S.r.l. and in March we leased an administrative office in Verona to support our direct selling efforts in that region.

In regards to international retail stores, during 2003, in four European countries we opened six stores, five of which were concept stores and one factory outlet, bringing our total Skechers owned and operated European stores to ten.

In 2001, we utilized a third party contract warehouse located in Belgium to distribute our footwear to our customers and retail stores in France, Germany and the United Kingdom. During 2002, we established Skechers EDC SPRL, and in August 2002, we entered into a lease agreement for an approximately 240,000 square foot distribution center in Liege, Belgium. The distribution center provides product to our subsidiaries and retail stores throughout Europe. We began shipping product out of the Liege, Belgium distribution center in December 2002.

### Canada

## [Table of Contents](#)

In November 2002, we established our subsidiary Skechers USA Canada and opened our first Canadian flagship store in Toronto's Eaton Centre. In January 2003, Skechers USA Canada assumed the distribution, merchandising, and marketing of our product in Canada from our Canadian distributor. Product sold in Canada is primarily sourced from our U.S. distribution center in Ontario, California. In October 2003, SKECHERS USA Canada opened an administrative office and showroom outside Toronto in Mississauga, Ontario, to support our direct selling efforts.

### Asia

Through an agreement with our Japanese distributor Achilles Corporation, Achilles opened two flagship retail stores and three outlet stores in Japan, including the 2003 openings of a flagship store in Osaka and outlet stores in Tochigi-ken and Shizuoka. Achilles Corporation is responsible for the store's operations, has ownership of the stores assets and selects the broad collection of our products to sell to Japanese consumers. In order to maintain a globally consistent image, we provide 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.

### Central America/South America

Through agreements with two distributors in Central and South America, we have opened 12 concept stores in eight countries in the region where Skechers product is also available through wholesale accounts. Dabsan International in Panama is responsible for the operations and product selection for Skechers stores in Columbia, Costa Rica, Ecuador, Guatemala, Panama, Peru and Venezuela. Our distributor Catecu S.A. in Chile is responsible for the operations and product selection for the Skechers store in Santiago, Chile. As with Japan, our international team works closely with the distributors to ensure the architectural, graphic and visual images are consistent with Skechers corporate strategies.

### Australia

In 2003, our distributor in Australia, Accent Group LTD, opened its first Skechers flagship store in Sydney through a retail licensing agreement with Skechers. The Accent Group owns and operates the store, and we provide guidance on product selection, as well as ensure that the image and attitude of the store is reflective of our company owned stores.

### Russia

Ilion, one of our Russian distributors, opened its first Skechers flagship store in Moscow in 2003, and handles the merchandising and operations, while we assist in the graphic and visual elements to keep a consistent brand identity.

### South Africa

Our South African distributor Footwear Trading Co., opened their first Skechers flagship store in Sandton in September 2003, and handles the merchandising and operations, while we assist in the graphic and visual elements to keep a consistent brand identity.

## LICENSING

We believe that selective licensing of the Skechers brand name and our line names to manufacturers may broaden and enhance the individual brands without requiring significant capital investments or additional incremental operating expenses. Our multiple product lines plus additional subcategories 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, underwear/loungewear and apparel than could be achieved in-house. 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 signed our first licensing deal in May 2002 for men's and women's sport, casual and fashion hosiery/socks, and have since signed several apparel, accessories and underwear/sleepwear licensing agreements for men, women and children in the United States and in select overseas markets for our various lines. The first launch of licensed product was Skechers Kids apparel for boys and girls from Kids Headquarters in July 2003 for the Back-to-School selling season.

Due to the successful in-store launch of Skechers Kids, in 2003 we expanded our licensing agreement with Kids Headquarters to include infant and toddler apparel and boy's and girl's daywear and sleepwear. We also extended our reach with infant, toddler and children's apparel by signing a licensing agreement with MultiGroup Inc. for design and distribution in Canada.

Among the licensing agreements signed during 2003, we entered into three primary apparel licensing arrangements:



## [Table of Contents](#)

1. Somethin' Else from SKECHERS. In October 2003, we entered into an agreement with Federal Jeans, Inc. to be our licensee for Somethin' Else from SKECHERS-branded junior sportswear apparel in the United States and Canada. Under this agreement, Federal Jeans will design, distribute and market coordinated tops and bottoms in denim, knit and woven materials. Product is expected to be available at department stores for the 2004 back-to-school selling season.
2. Michelle K. In August 2003, we entered into an agreement with Koral Industries to be our licensee for Michelle K contemporary women's apparel in the United States. Under the agreement, Koral Industries will design, distribute and market trend-right denim, knit and woven tops, bottoms, dresses, and jackets. The wearable trend basics are expected to be available in better department stores and boutiques in Fall 2004.
3. Skechers USA. In October 2003, we entered into an agreement with Paul Davril, Inc. (PDI) to be our licensee for Skechers USA men's and women's casual sportswear. Under the agreement, PDI will design, distribute and market Skechers-branded men's and women's tops and bottoms in woven, denim and leather materials, including pants, T-shirts, sweaters, shorts and outerwear as part of a sportswear collection. The line is expected to launch in department and specialty stores in Spring 2005.

Also of note, in 2003 we entered into our first international licensing agreement with Mitsui & Co., Inc. to be our licensee for Skechers-branded men's, women's and children's apparel and accessories in Japan. Under the agreement, Mitsui will manufacture and distribute Skechers Sport, Skechers USA and Skechers Kids apparel, hosiery, headwear, watches and eyewear; product began shipping to Japanese department and specialty stores in Spring 2004.

With our existing licensing agreements and as we continue to sign new agreements, 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 to (1) our approximately 1.4 million square feet of internally managed distribution center located in Ontario, California, (2) to our approximately 240,000 square foot distribution center located in Liege, Belgium, or (3) directly from third party manufacturers 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 our distribution facilities:

ADDRESS	STATUS	SQUARE FOOTAGE
Avenue du parc Industriel, Liege, Belgium	Leased since July 2002	241,700
4100 East Mission Blvd., Ontario, CA	Leased since June 2001	763,300
1670 Champagne Avenue, Ontario, CA	Owned since October 2000	263,700
1661 South Vintage Avenue, Ontario, CA	Leased since November 1997	127,800
1777 South Vintage Avenue, Ontario, CA	Leased since November 1997	284,600
		<u>1,681,100(1)</u>

- (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 any future growth, 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.

## [Table of Contents](#)

Our lease agreement for our Liege, Belgium distribution center provides for first right of refusal on three remaining facilities planned for development, allowing for expansion of up to approximately 967,000 square feet. We believe that the capacity available to us within our lease agreement will allow for further growth of our international operations.

## BACKLOG

As of December 31, 2003, our backlog was \$195.5 million, compared to \$205.0 million as of December 31, 2002. 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 2004. However, for a variety of reasons, including the customer demand for our products, the timing of shipments, product mix of customer orders, the amount of in-season orders, a shift towards tighter lead times within backlog levels, backlog may not be a reliable measure of future sales for any succeeding period. In addition, cancellation rates that we have realized in the past are not indicative of cancellation rates to be expected in the future.

## 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 90 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 of America. 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

## [Table of Contents](#)

such as those 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 been in existence for a longer period of time, 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 29, 2004, we employed 2,618 persons, 1,413 of which were employed on a full-time basis and 1,205 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.

## 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

[Table of Contents](#)

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. Our rate of growth has declined in recent periods and may continue to 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 2003 were lower than anticipated. This lower level of sales adversely affected our operating results for 2003 and could continue to do so in 2004 and beyond.

**ECONOMIC, POLITICAL, MILITARY OR OTHER EVENTS IN THE UNITED STATES OR 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 terrorist 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, or possible military action, taken by the United States and other nations, in Iraq or other countries 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 2003, our net sales to our five largest customers accounted for approximately 25.1% of total net sales. No one customer accounted for 10.0% or more of our net sales during 2003. As of December 31, 2003, one customer accounted for more than 10% 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.**

## [Table of Contents](#)

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% of our gross wholesale sales for the years ended December 31, 2002 or 2003. 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 2003, the top four manufacturers of our manufactured products produced approximately 49.9% of our total purchases. One manufacturer accounted for 24.6% of total purchases for the year ended December 31, 2003 and the same manufacturer accounted for 22.7% of total purchases for the year ended December 31, 2002. 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 2003 were derived from sales of footwear manufactured in foreign countries, with most manufactured in China and, to a lesser extent, in Italy, VietNam 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, including our military presence in Iraq;
- 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);

## [Table of Contents](#)

- 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 STRATEGIES INVOLVE A NUMBER OF RISKS THAT COULD PREVENT OR DELAY ANY 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, some or a substantial number of new stores could be opened in regions of the United States in which we currently have few or no stores. Any 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 that any 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.**

## [Table of Contents](#)

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 terrorist attacks, our military presence in Iraq, 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® and S in Shield Design® 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 and a limited number of utility 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 and technologies 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 and necessary management attention to such matters, 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 41 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, 2003, Robert Greenberg, Chairman of the Board and Chief Executive Officer, beneficially owned 68.3% of our outstanding Class B common shares and members of Mr. Greenberg's immediate family beneficially owned the remainder of our



## [Table of Contents](#)

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, 2003, Mr. Greenberg held approximately 62.1% 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 90.8% 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 June 2004 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 U.S. 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 \$4.1 million. The leased property expires between November 2007 and May 2011, and contains rent escalation provisions. The owned distribution facility is approximately 264,000 square feet.

## [Table of Contents](#)

In December 2002, we began to ship product from our internally managed approximately 240,000 square foot distribution center in Liege, Belgium. The facility is leased under a 25-year operating lease for approximately \$950,000 base rent per year. The lease agreement provides for first right of refusal on three facilities planned for development, allowing for expansion of up to approximately 967,000 square feet. We believe that the capacity available to us within our lease agreement should allow for further growth of our international operations. The lease agreement also provides for early termination at five-year intervals beginning in year five, pending notification as prescribed in the lease.

All of our retail stores and showrooms are leased with terms expiring between March 2004 and August 2014. The leases provide for rent escalations tied to either increases in the lessor's operating expenses, 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 \$16.9 million for the year ended December 31, 2003.

We also lease all of our international administrative offices, retail stores and showrooms located in Canada, France, Germany, Switzerland, Italy, Spain, the Netherlands, and the United Kingdom. The leased properties expire at various dates between June 2004 and November 2017. Total rent for the leased properties aggregated approximately \$4.9 million during 2003.

### ITEM 3. LEGAL PROCEEDINGS

On December 2, 2002, a class action complaint entitled OMAR QUINONES v. SKECHERS USA, INC. et al. was filed in the Superior Court for the State of California for the County of Orange (Case No. 02CC00353). The complaint, as amended, alleges overtime and related violations of the California Labor Code on behalf of managers of Skechers' retail stores and seeks, inter alia, damages and restitution, as well as injunctive and declaratory relief. On February 25, 2003, another related class action complaint entitled MYRNA CORTEZ v. SKECHERS USA, INC. et al. was filed in the Superior Court for the State of California for the County of Los Angeles (Case No. BC290932) asserting similar claims and seeking similar relief on behalf of assistant managers. While it is too early in the litigation to predict the outcome of the claims against Skechers, Skechers believes that it has meritorious defenses to the claims asserted in both class actions and intends to defend against those claims vigorously. Further, Skechers is unable to determine the extent, if any, of any liability however, and does not believe that an adverse result would have a material effect on Skechers' consolidated financial position or results of operations.

On February 6, 2003, a complaint captioned ADIDAS AMERICA, INC. and ADIDAS-SALOMON AG v. SKECHERS USA, INC. et al. was filed against Skechers in the United States District Court for the District of Oregon (Case No. CV 03-170 KI). The complaint alleges claims for trademark infringement, trademark dilution, unfair competition and deceptive trade practices arising out of Skechers' alleged use of marks confusingly similar to Adidas' three stripe mark. The lawsuit seeks, inter alia, compensatory, treble and punitive damages, as well as injunctive relief. On October 15, 2003, the parties settled the suit and all written documentation has been executed. The terms of the settlement are confidential and did not have a material effect on Skechers' consolidated financial position or results of operations.

On March 25, 2003, a shareholder securities class action complaint captioned HARVEY SOLOMON v. SKECHERS USA, INC. et al. was filed against Skechers and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-2094 DDP). On April 2, 2003, a shareholder securities class action complaint captioned CHARLES ZIMMER v. SKECHERS USA, INC. et al. was filed against Skechers and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-2296 PA). On April 15, 2003, a shareholder securities class action complaint captioned MARTIN H. SIEGEL v. SKECHERS USA, INC. et al. was filed against Skechers and certain of its officers and directors in the United States District Court for the Central District of California (Case No 03-2645 RMT). On May 6, 2003, a shareholder securities class action complaint captioned ADAM D. SAPHIER v. SKECHERS USA, INC. et al. was served on Skechers and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-3011 FMC). On May 9, 2003, a shareholders securities class action complaint captioned LARRY L. ERICKSON v. SKECHERS USA, INC. et al. was served on Skechers and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-3101 SJO). Each of these class action complaints alleged violations of the federal securities laws on behalf of persons who purchased publicly traded securities of SKECHERS between April 3, 2002 and December 9, 2002. In July 2003, the court in these federal securities class actions, all pending in the United States District Court for the Central District of California, ordered the cases consolidated and a consolidated complaint to be filed and served. On September 25, 2003, the plaintiffs filed a consolidated complaint entitled In re SKECHERS USA, Inc. Securities Litigation, Case No. CV-03-2094-PA in the United States District Court for the Central District of California, consolidating all of the federal securities actions above. The complaint names as defendants Skechers and certain officers and directors and alleges violations of the federal securities laws and breach of fiduciary duty

[Table of Contents](#)

on behalf of persons who purchased publicly traded securities of SKECHERS between April 3, 2002 and December 9, 2002. The complaint seeks compensatory damages, interest, attorneys' fees and injunctive and equitable relief. While it is too early to predict the outcome of the litigation, Skechers believes the suit is without merit and intends to vigorously defend the suit.

On April 3, 2003, a shareholder derivative complaint captioned BRADFORD MITCHELL v. JEFFREY GREENBERG et al. was filed against Skechers and certain of its officers in the Superior Court of the State of California, Los Angeles County (Case No. BC 293317). On April 3, 2003, a shareholder derivative complaint captioned GEORGIA MANOLAS v. JEFFREY GREENBERG et al. was filed against Skechers and certain of its officers in the Superior Court of the State of California, Los Angeles County (Case No. BC293388). On April 8, 2003, a shareholder derivative complaint captioned JEFF GRAVITTER v. ROBERT Y. GREENBERG was filed against Skechers and certain of its officers in the Superior Court of the State of California, Los Angeles County (Case No. BC293561). Each of these class action complaints included allegations of violations of California Corporation Code § 25402 and breach of fiduciary duty. On August 29, 2003, the plaintiffs in these state derivative actions filed a consolidated complaint entitled In re SKECHERS USA, Inc. Derivative Litigation, Case No. BC-293317, in the Superior Court of the State of California, Los Angeles County, consolidating all of the state derivative actions above. The complaint alleges violations of California Corporation Code § 25402, breaches of fiduciary duty, waste of corporate assets and unjust enrichment. The complaint seeks compensatory damages, treble damages, disgorgement of profits, imposition of a constructive trust, equitable and injunctive relief, and costs. While it is too early to predict the outcome of the litigation, the Company believes the suit is without merit and intends to vigorously defend against the claims.

On July 11, 2003 MG Footwear Inc., commenced a lawsuit against Skechers in the United States District Court for the District of New Jersey, MG FOOTWEAR, LLC v. SKECHERS USA, INC., Case No. 03-3252 (DMC), alleging inducement of breach of contract and interference with contractual relations between MG Footwear and Yakira, LLC. The suit seeks \$50 million dollars in punitive damages. The matter stayed pending the outcome of a related arbitration between MG Footwear and Yakira, LLC. Skechers plans on defending the allegations vigorously and believes the claims are without merit. Nonetheless, it is too early to predict the outcome and predict whether the outcome will have an adverse impact on the results Skechers operations or financial results.

We occasionally become involved in litigation arising from the normal course of business, with respect to the above cases, we are unable to determine the extent of any liability that may arise. Other than the foregoing, we have no reason to believe that any liability with respect to pending legal actions, individually or in the aggregate, will have a material adverse effect on our business, financial condition or results of operation.

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 2003.

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. We have not declared or paid any cash dividends on our Class A Common Stock 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.

	HIGH	LOW
YEAR ENDED DECEMBER 31, 2003		
First Quarter	\$10.24	\$ 5.16
Second Quarter	8.39	6.38
Third Quarter	9.26	6.10
Fourth Quarter	8.28	6.40
YEAR ENDED DECEMBER 31, 2002		
First Quarter	\$19.60	\$12.80

	HIGH	LOW
Second Quarter	24.40	18.00
Third Quarter	21.60	8.75
Fourth Quarter	12.90	6.52

As of March 3, 2004, there were 118 holders of record of our Class A Common Stock (including holders who are nominees for an undetermined number of beneficial owners) and 15 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.

Our equity compensation plan information is provided as set forth in Part III, Item 12 herein.

ITEM 6. SELECTED FINANCIAL DATA

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 in 1999. 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.

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, 2003.

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

	YEARS ENDED DECEMBER 31,				
	1999	2000	2001	2002	2003
<b>STATEMENT OF EARNINGS DATA:</b>					
Net sales	\$424,601	\$675,036	\$960,385	\$943,582	\$834,976
Gross profit	174,608	284,225	406,180	386,673	317,686
Operating expenses:					
Selling	57,332	77,451	111,401	94,274	84,653
General and administrative	79,114	125,827	205,989	210,889	238,550
Earnings (loss) from operations	38,830	81,263	88,487	82,655	(1,347)
Interest expense	6,554	9,230	13,852	8,927	8,839
Earnings (loss) before income taxes	32,691	72,351	75,955	75,341	(10,373)
Net earnings (loss)	24,056	43,751	47,270	47,036	(11,867)
<b>PRO FORMA OPERATIONS DATA:(1)</b>					
Earnings (loss) before income taxes	\$ 32,691	\$ 72,351	\$ 75,955	\$ 75,341	\$ (10,373)
Income taxes	12,880	28,600	28,685	28,305	1,494
Net earnings (loss)	19,811	43,751	47,270	47,036	(11,867)
<b>Net earnings (loss) per share:(2)</b>					
Basic	\$ 0.62	\$ 1.24	\$ 1.30	\$ 1.26	\$ (0.31)
Diluted	\$ 0.60	\$ 1.20	\$ 1.24	\$ 1.20	\$ (0.31)
<b>Weighted average shares:(2)</b>					
Basic	31,765	35,142	36,409	37,275	37,840
Diluted	33,018	36,563	38,059	40,854	37,840

## AS OF DECEMBER 31,

BALANCE SHEET DATA:	1999	2000	2001	2002	2003
Working capital	\$ 65,003	\$ 93,305	\$ 139,972	\$ 286,760	\$ 277,835
Total assets	177,914	303,400	407,486	483,156	466,533
Total debt	33,950	85,321	115,931	119,646	119,273
Stockholders' equity	86,000	134,046	199,016	259,236	255,654

- (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, in addition to the weighted average determined for basic earnings per share, reflects the potential dilution that could occur if options to issue common stock were exercised or converted into common stock and assumes the conversion of our 4.50% Convertible Subordinated Notes for the period outstanding since their issuance in April 2002, unless their inclusion would be anti-dilutive. The weighted average diluted shares outstanding for 1999 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 Item 1 of this report under "Risk Factors" and elsewhere in this report.

## GENERAL

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 the following 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 internationally through three integrated retail formats. The utilization of three distinct retail formats is to appeal to a broad range of customers that are segmented by price points and allows us to manage inventory in an efficient and brand sensitive manner. Our three retail formats are as follows:
  1. **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. The products offered in our concept stores are full price in-season products and typically attract fashion conscious customers. Our proto-typical concept store is approximately 2,500 square feet and generates gross margins that are the highest of our three retail formats.
  2. **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. Our factory outlet stores range in size from 1,900 square feet to 9,000 square feet and generally have price points less of \$60.00 or lower. Gross margins generated from our factory outlet stores are less than those in our concept stores.

## [Table of Contents](#)

3. 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. These stores allow us to sell discontinued and excess merchandise, thereby reducing the need to sell merchandise to discounters at excessively low prices, which could compromise the Skechers brand.

- 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.

## FINANCIAL OVERVIEW

We have two reportable business segments, domestic wholesale and distributor sales. Our domestic wholesale segment is our largest distribution channel comprising 76.0%, 72.3% and 67.4% of our net sales for the years ended December 31, 2001, 2002, and 2003, respectively. Our distributor sales comprised 10.4%, 8.7%, and 8.4% of our consolidated net sales for the years ended December 31, 2001, 2002, and 2003, respectively. Gross margins provided by our distribution channels are such that, our retail sales achieve higher gross margins as a percentage of net sales than domestic 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 formats, international wholesale sales, or international retail sales comprised more than 10% of our consolidated net sales for either fiscal 2001, 2002 or 2003.

We had realized rapid growth since inception, increasing net sales from \$90.8 million in 1994 to \$960.4 million in 2001. However during 2002 and 2003, we saw our net sales decline, by 1.7% and 11.5%, for the years ended December 31, 2002 and 2003, respectively, when compared to the prior year. The decline in net sales during 2003 from 2002 was primarily due to reduced domestic wholesale sales and, although to a lesser extent, reduced sales to our international distributors. Our distributor sales have decreased in part due to the expansion of our international direct selling efforts, which sales are classified as international wholesale, as compared to distributor sales in prior years. During 2003, our domestic wholesale sales declined 17.5% on a 5.2% decline in unit sales volume, and in a 13.1% decrease in the average price per pair sold. As a result, we realized a decrease in margins, which declined to 38.0% in 2003 compared to 41.0% in 2002. The decrease in average price per pair sold, and the negative impact on margins in 2003 was due to various factors. First, was the build up of committed inventory (which includes inventory on hand and in-transit from the factory which is on our books and inventory in process at the factory which is not in our books) from our third party manufacturers at December 31, 2002. The increase in committed inventory was to take advantage of at once orders during the first half of 2003, which did not materialize to the levels we had anticipated. Second, as a result of our at once orders not achieving the levels expected, we ended up with higher than anticipated inventory levels, which reached a high of \$217.1 million at June 30, 2003. As a result, we undertook an aggressive sales strategy to significantly reduce our inventory levels in an already difficult retail environment, one where consumers were seeking product markdowns at the retail level. This sales strategy was initiated into both of our domestic and international wholesale distribution channels. Third, we saw a decrease in demand for some of our product lines that had traditionally made up a larger portion of our domestic wholesale sales. We continually update, modify and expand our product offerings based on current and expected trends, which may include the addition of new styles within existing product lines, such as within our Skechers Work and Skechers Sport lines, and in some cases the addition of new product lines such as our Michelle K sport line and our high end men's line Mark Nason.

Offsetting the decline in our domestic wholesale sales was a 15.4% increase in our retail sales. The increase was due to the net increase of 29 retail stores during 2003, and the incremental effect of having the 15 retail stores we opened in 2002 open for all of 2003. At December 31, 2003, we had 125 retail stores opened worldwide and we currently believe that we have established our presence in most major markets. As such, we currently feel that we are now able to curtail our retail expansion, and therefore, we currently have plans to open four domestic, and no international, retail stores in 2004. During 2003, we recorded an impairment charge of \$619,000 to write off the fixed assets at three of our domestic retail stores. Further, we are carefully reviewing our under performing stores and may consider the non-renewal of leases at lease renewal.

During 2003, we continued our international expansion with the establishment of international subsidiaries in Canada, the Netherlands, and Italy. These subsidiaries support our direct selling efforts in those countries and are in addition to our subsidiaries established in the United Kingdom, Germany, France and Spain. We currently believe that we have developed our international direct selling efforts, therefore, we currently do not anticipate entering any new international markets in 2004. Instead, we will focus on (i) enhancing the efficiency of our international operations, (ii) increasing our customer base, (iii) increasing the product count within each customer, and (iv) tailoring our product offerings currently available to our international customers to increase demand for our product.

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.

## [Table of Contents](#)

During 2003, we continued to increase our licensing opportunities and have now signed 12 domestic and three international licensing agreements in the last two years. Our licensing agreements, which now consist of apparel, accessories, loungewear, and swimwear, cover most of our brand names available for licensing. Our most significant license to date is with Kids Headquarters for Skechers kids apparel, which launched for back to school in 2003. Due to the successful launch of the kid's apparel line, we have expanded the agreement to include infant and toddler apparel and boys' and girls' daywear and sleepwear. As many of our licensing arrangements were signed in 2003, we currently believe that most product offerings will be available in stores by fall 2004.

### YEAR ENDED DECEMBER 31, 2002 COMPARED TO THE YEAR ENDED DECEMBER 31, 2003

#### Net sales

Net sales for 2003 were \$835.0 million an 11.5% decrease from net sales of \$943.6 million in 2002. The decrease in net sales was due to reduced domestic wholesale sales, partially offset by increases in international wholesale and retail sales. Domestic wholesale net sales decreased 17.5% to \$562.9 million in 2003 compared to \$682.6 million in 2002. The decrease in domestic wholesale net sales was the result of a 5.2% decrease in unit sales volume, to 33.4 million pairs in 2003 from 35.2 million pairs in 2002, and a 13.1% decrease in the average selling price per pair to \$16.86 in 2003 from \$19.39 in 2002. The anticipated decrease in the average selling price per pair was due to our aggressive selling efforts to relieve our inventory levels that were built up from our inventory commitments at December 31, 2002. We had anticipated that our inventory commitments would be utilized by at once orders in the first half of 2003, however, the level of at once orders during this period were lower than anticipated. The lower level of at once orders during the first half of 2003 allowed our inventory levels to reach a high of \$217.1 million at June 30, 2003. As such we continued our aggressive sales campaign through the end of 2003, which negatively impacted our average selling price per pair.

Our distributor net sales decreased 14.7%, to \$70.4 million in 2003 from \$82.5 million in 2002, due to reduced sales into the South American, Asian, and Mexican markets, as well as the reclassification previously described.

Our other segment net sales consist of international wholesale, international and domestic retail sales and e-commerce sales. Our international wholesale sales increased 9.7%, due to expansion of our direct selling efforts into the Benelux region, Canada, and Italy, which were previously classified as distributor sales, offset by reduced sales into the United Kingdom and France.

Our domestic retail sales increased 12.2% due to the net addition of 23 domestic retail stores and having the 13 retail stores opened in 2002 open the entire year of 2003. We currently have 114 domestic retail stores, and currently plan to open four domestic retail store stores in 2004. During 2003 we closed two retail stores. We periodically review all of our stores for impairment and/or, in the case of under performing stores, store closure. Our international retail sales increased 81.6% in 2003 compared to 2002, due to the addition of six stores and the two stores opened in 2002 being open the entire year of 2003. We currently do not anticipate opening any international retail stores in 2004. Our e-commerce sales decreased 9.8% in 2003 when compared to 2002. Our e-commerce sales made up less than 1% of our consolidated net sales in both fiscal 2002 and 2003.

During 2003, we began to generate licensing revenues from licensing our brand name and our branded lines to non-footwear manufacturers. Our licensing revenues in 2003 were derived primarily from our kids apparel licensing agreement with Kid's Headquarter. In total, we generated licensing revenues of approximately \$2.9 in fiscal 2003. We currently anticipate that licensing fees will increase in fiscal 2004, as additional licensing products become available to consumers.

#### Gross profit

Gross profit for fiscal 2003 was \$317.7 million compared to \$386.7 million in 2002. Gross profit as a percent of net sales was 38.0% compared to 41.0% in 2002. The decrease in margin was due to the decrease in domestic wholesale margins, which were 33.0% in 2003 compared to 38.4% in 2002. The decrease in domestic wholesale margins was due to our aggressive sales strategy, primarily in the second half of 2003, that we employed in order to reduce our inventory levels. The effect of this sales strategy was a 13.1% decrease in the average selling price per pair for the year and a domestic wholesale margin of 27.1% during the fourth quarter of 2003, compared to 33.8% in the fourth quarter of 2002. Offsetting the domestic wholesale margin decrease in fiscal 2003 was the increase in our domestic retail sales, which have a higher gross margin than domestic wholesale sales, as they have become a higher percentage of our consolidated net sales. During the second half of 2003, we moved a significant amount of excess and clearance priced inventory. However, we have recently begun to ship higher margin products, as such, we currently anticipate that margins during the first quarter of 2004 will be approximately 40%.

#### Selling expenses

## [Table of Contents](#)

Selling expenses for 2003 were \$84.7 million, a decrease of \$9.6 million from selling expenses of \$94.3 million in 2002. Selling expenses as percentage of sales were 10.1% in 2003 compared to 10.0% in 2002. The decrease in selling expenses was primarily due to reduced advertising expenses, which decreased to \$71.7 million in 2003 from \$75.1 million in 2002, although because of the reduction in net sales, advertising expense increased as a percentage of net sales to 8.6% in 2003 from 8.0% in 2002. The decrease in advertising was due to reduced domestic media ads of approximately \$8.5 million, primarily television and trade print, offset by increased international advertising and promotional costs of approximately \$2.2 million, including a major print campaign featuring international pop star Christina Aguilera for our women's sport line, as well as increased sample costs of approximately \$2.1 million associated with developing styles for new and existing product lines.

### General and administrative expenses

General and administrative costs for 2003 were \$238.6 million, an increase of 13.1% over general and administrative expenses of \$210.9 million in 2002. General and administrative expenses as a percent of sales were 28.6% in 2003 compared to 22.3% in 2002. The increase in general and administrative expenses was due to increased salaries, wages, taxes and related benefits of \$13.0 million, increased rent of \$8.5 million, increased depreciation \$3.6 million, increased insurance of \$1.8 million, and \$619,000 of impairment charges related to the write off of fixed assets at three of our domestic retail stores. The increase in expenses were primarily the result of our continued expansion of both our domestic and international retail operations, in which we added a total of net 29 stores, and establishing subsidiaries in Canada, the Netherlands, and Italy.

During fiscal 2002 and 2003, we significantly increased the number of domestic and international retail stores, expanded our direct selling efforts into Spain, the Benelux region, Canada, and Italy, and established our European distribution center in Belgium to provide inventory fulfillment services to our international customers and our own retail stores. During this same period, we realized a decrease of 1.7 % and 11.5% in our consolidated net sales for fiscal 2002 and 2003, respectively, when compared to the prior year. As a result of our expansion efforts, we have expanded our infrastructure with costs that are fixed in the short term. As result of the decrease in sales, coupled with an increase in operating expenses associated with our expansion strategies, we realized a deleveraging of our expenses in fiscal 2003, which may continue into 2004. As such, we currently do not plan on entering any additional international markets and currently plan to open four domestic, and no international, retail stores in 2004.

During the fourth quarter, we implemented some initial cost reductions based on our anticipated sales levels; however, we have not yet realized the benefits of those reductions. We continue to review our cost structure to develop efficiencies within our operations and currently anticipate that any additional cost reduction strategies, if needed, will be made after the first quarter 2004 and will be based on our sales outlook for the remainder of fiscal 2004. However, at this time we are currently unable to determine the extent, if any, of any anticipated savings in fiscal 2004 when compared to 2003.

### Interest expense

Interest expense for fiscal 2003 was \$8.8 million consistent with interest expense of \$8.9 million in 2002. Interest expense is derived from our convertible notes, mortgages on our distribution center and corporate office located in California, our capital lease obligations and interest on amounts owed to our foreign manufacturers. Our total average debt levels and average interest rates have remained comparable from 2002 to 2003.

### Other income

Other, net was an expense of \$187,000 in 2003 compared to income of \$1.6 million in 2002. The reduction in other, income was due to reduced foreign exchange gains and reduced rent earned from leasing office space at one of our administrative offices in 2003, when compared to 2002.

### Income taxes

We provided \$1.5 million in income taxes for fiscal 2003 despite our generating a pretax loss. The tax provision was computed using the effective tax rates applicable to each of our domestic and international taxable jurisdictions. The tax provided was the result of generating tax losses in low tax rate jurisdictions and the inability to use those losses against income in higher rate jurisdictions. During 2002, our effective tax rate was 37.6%, which is lower than the expected domestic rate of 40%, due to our international expansion into lower tax rate jurisdictions and our reinvestment of undistributed earnings from our non-U.S. subsidiaries, thereby indefinitely postponing their remittance. As such, we did not provide for deferred income taxes on accumulated undistributed earnings of our non-U.S. subsidiaries.



YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2002

Net sales

Net sales for 2002 decreased 1.7% to \$943.6 million compared to \$960.4 million in 2001. The decrease in net sales was primarily due to reduced domestic wholesale segment net sales which were \$682.6 million for 2002, compared to \$729.9 million in 2001. The decreased sales is attributed to a 3.1% decrease in unit sales volume to 35.2 million pairs in 2002 compared to 36.3 million pairs in 2001 and a 3.5% decrease in the average selling price per pair to \$19.39 in 2002 compared to \$20.10 in 2001. Distributor net sales decreased 17.3% to \$82.5 million in 2002 from \$99.8 million in 2001 primarily due to decreased sales into the South American market place and the expansion of our international direct selling efforts, whose sales are now classified as international wholesale. International wholesale net sales increased 119.1% in 2002 compared to 2001. The increase was primarily due to our direct sales efforts in place for the full year in 2002 compared to approximately nine months in 2001.

Domestic retail sales increased 24.8% in 2002 over 2001, due to the addition of 13 retail stores added during 2002. International retail sales increased 30.2% due to most stores being opened the entire 12 months period in 2002, compared to only a portion in 2001, and to a lesser extent, new flagship stores opened in Frankfurt, Germany and Toronto, Canada during the fourth quarter of 2002. Our direct mail sales decreased over 50%, in 2002 compared to 2001 due to the elimination of our mail order and catalog operations in October 2001.

During 2002, we continued to expand internationally by establishing subsidiaries in Canada, Spain, the Benelux region, and in the first quarter of 2003, in Italy. Our international subsidiary's infrastructure typically includes a sales and support staff and showroom to present the full range of our product offerings to prospective accounts. During the year ended December 31, 2002, we opened 13 domestic retail stores: five concept stores, five factory outlet stores, and three warehouse outlet stores.

Gross profit

Gross profit for 2002 was \$386.7 compared to gross profit of \$406.2 million in 2001. Gross margin was 41.0% for 2002 compared to 42.3% for 2001. Gross margin for the domestic wholesale segment was 38.4% in 2002 compared to 40.9% in 2001. The decrease in gross margin in the domestic wholesale segment was due primarily to concessions given to our wholesale accounts to stimulate sales at retail during a sluggish retail environment, additional costs related to the domestic west coast port strike which lead to additional airfreight costs from our international manufacturers, rerouting of freight to east coast and Canadian ports, and the subsequent trucking costs from those ports to our distribution center in Ontario, California. In addition we realized lower margins from our company owned retail stores due to additional sales promotions during 2002 compared to 2001.

Selling expenses

Selling expenses for the 2002 were \$94.3 million compared to \$111.4 million in 2001, a decrease of \$17.1 million or 15.4%. Selling expense as a percentage of net sales decreased to 10% compared to 11.6% in 2001. The decrease in selling expense was primarily due to decreased advertising, which was 8.1% of sales in 2002 compared to 9.0% in 2001. Advertising expense decreased \$9.8 million in 2002 primarily due to fewer domestic print ads, and cable TV ads, other selling expense reductions were realized in trade show expenses of \$1.5 million, and catalog expenses of \$4.9 million, from the discontinuance of our mail order catalog.

General and administrative expenses

General and administrative expenses for 2002 were \$210.9 million compared to \$206.0 million for 2001. As a percentage of net sales general and administrative expenses were 22.3% in 2002, compared to 21.4% in 2001. The increase in general and administrative expenses during 2002 compared to 2001 was due to increased rent (approximately \$5.0 million), insurance (\$2.2 million), travel (\$2.0 million) and depreciation charges (approximately \$2.3 million) related to the addition of 13 retail stores and the full year's effect of the 26 stores added in 2001, infrastructure additions to support our direct selling efforts in the United Kingdom, Germany, France, and new subsidiaries added in 2002, including Spain, Canada, and the Netherlands and, to a lesser extent, legal reserves and the move into our internally managed distribution center in Liege, Belgium in the fourth quarter of 2002. However, the expense increases noted were partially offset by reduced temporary help costs (approximately \$9.0 million) at our distribution facility in Ontario, California.

## [Table of Contents](#)

The costs added during this expansion period have not 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.

### Interest expense

Interest expense decreased to \$8.9 million in 2002 compared to \$13.9 million in 2001. The decrease is due to the elimination of our short-term borrowings whose interest rate was tied to the prime rate of interest, which has decreased over the last two years and reduced interest rates charged on amounts outstanding with our foreign manufacturers.

### Other income

Other income for 2002 was \$1.6 million compared to \$1.3 million in 2001. The increase in other income was due to foreign exchange gains, offset by decreased rent revenue from the leasing of office space at one of our administrative facilities.

### Income taxes

The effective tax rate in 2002 was 37.6% compared to 37.8% in 2001. 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.

## LIQUIDITY AND CAPITAL RESOURCES

Our working capital at December 31, 2003 was \$277.8 million, a decrease of \$9.0 million from working capital of \$286.8 million at December 31, 2002. Our cash and cash equivalents at December 31, 2003 were \$113.5 million compared to \$124.8 million at December 31, 2002. The change in net cash was the result of a decrease in cash provided by operating activities, primarily the result of generating a net loss for fiscal 2003, cash used in investing activities of \$24.1 million for capital expenditures related to our investments in our retail stores, international expansion and additional investments in intellectual property, and net cash used in financing activities related to the repayment of long term obligations.

In 2003, our cash balances decreased \$11.3 million, from \$124.8 million at December 31, 2002 to \$113.5 million at December 31, 2003. The significant impacts on cash flows in 2003 related to expenditures for certain property and equipment aggregating \$20.7 million and the acquisition of our Canadian distributor for \$2.3 million, offset by cash flows from operations of \$12.3 million. During 2003, we focused on reducing inventories, which decreased by \$11.9 million in 2003 as compared to 2002, and using that cash to reduce our accounts payable and accrued expenses, which decreased \$11.7 million in 2003 compared to 2002. There were no significant changes in cash flow resulting from financing activities. Our main source of borrowings is our 4.50% convertible Subordinated notes aggregating \$90.0 million. We have no borrowings outstanding under our line of credit and total cash flows used in financing activities were \$0.9 million.

Net cash used in investing activities was \$24.1 million for fiscal 2003, compared to \$14.5 million in fiscal 2002. The increase in capital expenditures for fiscal 2003, compared to the same period in 2002, was due to the building of 26 domestic retail stores, which totaled approximately \$11.2 million, equipment and leasehold improvements at our international subsidiaries, international retail stores, and our European distribution center of \$7.1 million. In addition, we spent \$2.3 million related to the acquisition of our Canadian distributor, of which \$1.3 million related to the repurchase of inventory. We initiated our direct selling efforts in Canada in the first quarter of 2003.

During 2003, we continued to invest in our international expansion efforts by establishing subsidiaries in Canada, Italy and the Netherlands. These subsidiaries were established to support our direct efforts in those regions. We also invested in the expansion of our retail stores by opening an additional 25 domestic and 6 international retail stores. These investments continued throughout fiscal 2003, despite our decrease in consolidated net sales, when compared to 2002. Our expansion efforts have increased our overhead structure, causing our operating expenses to become a larger portion of net sales in 2003 when compared to fiscal 2002. We currently believe that we have an international presence in the most favorable international locations and have a retail presence in most major markets both domestically and internationally. Therefore during 2004, we currently do not plan on expanding our direct selling efforts into new international regions. In addition, we currently do not plan on opening any additional international retail stores in

## [Table of Contents](#)

2004 and currently have plans to open four domestic retail stores in 2004. We currently expect our capital expenditures for 2004 to be approximately \$4-6 million in total, which includes our domestic retail stores, minor capital improvements at our distribution centers and investments in information technology. We currently anticipate that our capital expenditures will be funded by cash flows from operations or from funds available from our secured line of credit, of which, there are currently no amounts outstanding.

Net cash used in financing activities was \$911,000 for fiscal 2003, compared to net cash provided by financing activities of \$6.0 million during fiscal 2002. The decrease in net cash provided by financing activities was primarily due to the reduction in cash provided by the exercise of stock options, and prior year including the proceeds from the issuance of our 4.50% notes, offset by the repayment of our short-term borrowings.

In April 2002, we issued \$90.0 million aggregate principal amount of 4.50% Convertible Subordinated Notes due April 15, 2007. The notes are convertible into shares of our Class A Common Stock. Interest on the notes is paid semi-annually on April 15 and October 15 of each year. The notes are convertible at the option of the holder into shares of Class A Common Stock at a conversion rate of 38.5089 shares of Class A Common Stock per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$25.968 per share. The conversion rate is subject to adjustment. The notes may be converted at any time on or before the close of business on the maturity date, unless the notes have been previously redeemed or repurchased; provided, however, that if a note is called for redemption or repurchase, the holder will be entitled to convert the notes at any time before the close of business on the date immediately preceding the date fixed for redemption or repurchase, as the case may be. The notes are unsecured and subordinated to our present and future senior debt. The notes are also structurally subordinated in right of payment to all indebtedness and other liabilities of our subsidiaries. The indenture does not restrict our incurrence of indebtedness, including senior debt, or our subsidiaries' incurrence of indebtedness. Net proceeds from the sale of the notes were \$86.2 million. The refinancing of our short-term borrowings with long-term capital was done to provide us with long-term debt to provide for the future growth of the business.

We have available a secured line of credit, as amended on December 31, 2003, permitting borrowings up to \$150.0 million based upon eligible accounts receivable and inventories. Borrowings bear interest at the prime rate (4.0% at December 31, 2003) minus 0.50%, and the agreement expires on December 31, 2005. 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, 2003 were \$3.8 million. Available borrowings under the line of credit at December 31, 2003 were \$99.4 million and no amounts were outstanding at December 31, 2003 and 2002. We pay an unused line of credit fee of .25% annually. The agreement provides the following financial covenants should the loan balance exceed 60% of all eligible accounts, that stockholders' equity shall not decrease by more than 20% in any given calendar quarter; a tangible net worth be maintained as defined in the agreement; and limits the payment of dividends if in default of any provision of the agreement. We were in compliance with these covenants at December 31, 2003.

We believe that anticipated cash flows from operations, available borrowings under our revolving line of credit, cash on hand, proceeds from the issuance of the notes 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 2004. However, in connection with our current strategies, 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 success of our international operations, 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 financing. We cannot be assured 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.

### Disclosure about Contractual Obligations and Commercial Commitments

The following table aggregates all material contractual obligations and commercial commitments as of December 31, 2003:

Payments Due by Period (In Thousands)

	Total	Less than One Year	One to Three Years	Three to Five Years	More Than Five Years
Long-Term Obligations (1)	\$ 104,175	\$ 4,050	\$ 8,100	\$ 92,025	—
Other Long Term Debt	27,460	1,678	3,356	3,356	\$ 19,070
Capital Lease Obligations	12,769	3,754	8,815	200	—
Operating Lease Obligations (2)	223,104	31,206	58,086	47,122	86,690
Purchase Obligations (3)	200,600	200,600	—	—	—
	<u>\$568,108</u>	<u>\$241,288</u>	<u>\$78,357</u>	<u>\$142,703</u>	<u>\$105,760</u>

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance-sheet arrangements or other contractually, narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

- (1) The long-term debt consists of our 4.50% convertible notes receivable due April 15, 2007, and related interest payments due in April and October of each year, unless converted into our Class A common stock as provided for in the indenture agreement.
- (2) Operating lease commitments consists primarily of real property leases for our retail stores, corporate offices, and distribution centers. These leases frequently include options, which permit us to extend beyond the terms of the initial fixed term. Payments for these lease terms are provided for by cash flows generated from operations or, if needed, by our \$150,000,000 secured line of credit, for which no amounts were outstanding at December 31, 2003.
- (3) Purchase obligations includes the following (i) purchase orders for the purchase footwear, that may be cancelable in certain instances given the timing of cancellation, of \$153.5 million, (ii) outstanding letters credit of \$3.8 million, and (iii) open purchase commitments with our foreign manufacturers for \$43.3 million. We currently expect to fund these commitments with cash flows from operations.

#### CRITICAL ACCOUNTING ESTIMATES

Management Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting estimates are affected by more significant judgments used in the preparation of our consolidated financial statements: revenue recognition; valuation allowances, inventory reserves, valuation of intangible and long-lived assets, litigation reserves, and valuations of deferred income taxes.

**Revenue Recognition.** We derive revenue from the sale of footwear. In general, revenue is recognized upon shipment of the merchandise. Domestically, goods are shipped directly from our domestic distribution center in Ontario, California, and revenue is recognized upon shipment from the distribution center (FOB shipping point). For our international wholesale accounts, product is shipped direct from our distribution center in Liege, Belgium, and revenue is recognized upon shipment from the distribution center. For our distributor sales, the goods are delivered directly from the independent factories to the distributors on an FOB shipping point basis and revenue is recognized upon shipment from the factory. In all of the above cases, each of the following have been met prior to revenue recognition: persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured.

**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 offer normal trade discounts to our customers. On occasion we offer our wholesale accounts sales discounts based on various promotional programs, such as trade-show promotions, product line discounts, and futures discounts. All sales are booked net of discount and are recorded at the time of revenue recognition. All customer returns must have a return authorization number, once the product is returned and processed, we issue a credit to the customer. We determine the amount of the reserve by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' country or industry,



[Table of Contents](#)

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. For receivables that are not specifically identified as high risk, we provide a reserve based upon a percent of sales for the last three months. This percentage is based on our historical loss rate. A 1% change in this rate would not have a significant impact on our results of operations. Gross trade accounts receivable balance was \$106.7 million and the allowance for bad debts, returns, and customer chargebacks was \$7.9 million at December 31, 2003.

**Inventory reserves.** Inventories are stated at lower of cost or market. We review our inventory on a regular basis for excess and slow moving inventory. Our review is based on inventory on hand, prior sales, and our expected net realizable value. Our analysis includes a review of inventory quantities on hand at period end in relation to year-to-date sales and projections for sales in the near future. The net realizable value, or market value is determined based on our estimate of sales prices of such inventory through off-price or discount store channels. A write down of inventory is considered permanent and creates a new cost basis for those units. The likelihood of any material inventory write-down is dependent primarily on our expectation of future consumer demand for our product. A misinterpretation or misunderstanding of future consumer demand for our product or the economy, or other failure to estimate correctly, could result in inventory valuation changes, either favorably or unfavorably, compared to the requirement determined to be appropriate as of the balance sheet date. At December 31, 2003, our gross inventory value was \$139.9 million, and our inventory reserve was \$2.0 million.

**Valuation of long-lived assets.** When circumstances warrant, we assess the impairment of 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. In addition, we prepare a summary of store contribution from our retail stores to assess potential impairment of the leasehold improvements. Stores with negative contribution opened in excess of twelve months are then reviewed in detail to determine if impairment exists. At December 31, 2003, we recorded an impairment charge for leasehold improvements at three of our retail stores totaling \$619,000.

**Litigation reserves.** Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in our 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.** We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. The likelihood of a material change in our expected realization of our deferred tax assets depends on future taxable income and the effectiveness of our tax planning strategies amongst the various domestic and international tax jurisdictions in which we operate. We evaluate our projections of taxable income to determine the recoverability of our deferred tax assets and the need for an evaluation allowance.

## 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 2002 and 2003, 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.

## FUTURE ACCOUNTING CHANGES

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 is applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No. 145 did not have any effect on our consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 did not have a material effect on our consolidated financial statements.

In September 2002, the FASB Emerging Issues Task Force issued EITF No. 02-16, Accounting by a Reseller for Cash Consideration Received from a Vendor. EITF No. 02-16, which provides that cash consideration received from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction in cost of sales unless it is a payment for assets or services delivered to the vendor, in which case the cash consideration should be characterized as revenue, or unless it is a reimbursement of costs incurred to sell the vendor's products, in which case the cash consideration should be characterized as a reduction of that cost. EITF No. 02-16 became effective for us in the first quarter of 2003, and had no impact on our consolidated financial statements, as we have historically accounted for vendor payments in accordance with the provisions of this standard.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The disclosure requirements are effective for interim and annual financial statements ending after December 15, 2002. The Company does not have any material guarantees that require disclosure under FIN 45.

FIN 45 also requires displaying the recognition of a liability by a guarantor at the inception of certain guarantees. FIN 45 requires the guarantor to recognize a liability for the non-contingent component of a guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements. The initial recognition and measurement provisions are effective for all guarantees within the scope of FIN 45 issued or modified after December 31, 2002.

[Table of Contents](#)

As noted above the Company has adopted the disclosure requirements of FIN 45 and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002. For the year ended December 31, 2003, the Company has not entered into any guarantees within the scope of FIN 45.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51,” which addresses consolidation by business enterprises of variable interest entities (“VIEs”) either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, the FASB completed deliberations of proposed modifications to FIN 46 (“Revised Interpretations”) resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretations. Special Purpose Entities (“SPEs”) created prior to February 1, 2003 may be accounted for under the original or revised interpretation’s provisions. Non-SPEs created prior to February 1, 2003, should be accounted for under the Revised Interpretation’s provisions. The Revised Interpretations are effective for periods after June 15, 2003 for VIEs in which the Company holds a variable interest it acquired before February 1, 2003. For entities acquired or created before February 1, 2003, the Revised Interpretations are effective no later than the end of the first reporting period that ends after March 15, 2004, except for those VIEs that are considered to be special-purpose entities, for which the effective date is no later than the end of the first reporting period that ends after December 31, 2003. The adoption of FIN 46 and the Revised Interpretations has not and is not expected to have an impact on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” SFAS No. 150 establishes standards on the classification and measurement of certain instruments with characteristics of both liabilities and equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 requires the classification of any financial instruments with a mandatory redemption feature, an obligation to repurchase equity shares, or a conditional obligation based on the issuance of a variable number of its equity shares, as a liability. The adoption of SFAS No. 150 did not have a material effect on our consolidated financial statements.

## 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, 2003, no amounts were outstanding that were subject to changes in interest rates; however, the interest rate charged on our line of credit facility is based on the prime rate of interest and changes in the prime rate of interest will have an effect on the interest charged on outstanding balances. No amounts are currently outstanding.

**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



[Table of Contents](#)

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.

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.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

The term "disclosure controls and procedures" refers to the controls and procedures of a company that are designed to ensure that information to be disclosed by a company in the reports that it files under Rule 13a-14 of the Securities and Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported within required time periods. As of the end of the period covered by this Annual Report on Form 10-K (the "Evaluation Date"), we carried out an evaluation under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness of our disclosure controls and procedures. Based on that evaluation, Our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such controls and procedures were effective in ensuring that the required information will be disclosed on a timely basis in our periodic reports filed with the Securities and Exchange Commission under the Exchange Act.

(b) Changes in internal control

There were no significant changes to our internal control over financial reporting or in other factors that could significantly affect our internal controls subsequent to the Evaluation Date.

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 2003 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 2003 fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

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 2003 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 2003 fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 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 2003 fiscal year.

PART IV

ITEM 15. 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 — The registrant filed one current report on Form 8-K during the three months ended December 31, 2003.

On October 28, 2003, under Item 12 — Results of Operations and Financial Condition. Regarding the registrant's announcement on October 23, 2003 of its financial results for the third quarter and nine months ended September 30, 2003. A copy of the press release was furnished as Exhibit 99.1 to the current report. Further, regarding the registrant's conference call and audio web cast held on October 23, 2003 regarding its financial results for the third quarter and nine months ended September 30, 2003. A transcript of the call and audio web cast was furnished as Exhibit 99.2 to the current report.

- (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).
4.2	Purchase Agreement, dated April 14, 2002, between the Registrant and CIBC World Markets Corp., relating to the 4.5% Convertible Subordinated Notes (incorporated by reference to exhibit number 4.1 of the Registrant's Form 10-Q for the period ending June 30, 2002).
4.3	Indenture, dated April 9, 2002, between the Registrant and Wells Fargo Bank, National Association, as Trustee, relating to the 4.5% Convertible Subordinated Notes (incorporated by reference to exhibit number 4.2 of the Registrant's Form 10-Q for the period ending June 30, 2002).
4.4	Form of Specimen Restricted Global Security (incorporated by reference to exhibit number 4.3 of the Registrant's Form 10-Q for the period ending June 30, 2002).
4.5	Registration Rights Agreement, dated April 9, 2002, between the Registrant and CIBC World Markets Corp., relating to the 4.5% Convertible Subordinated Notes (incorporated by reference to exhibit number 4.4 of the Registrant's Form 10-Q for the period ending June 30, 2002).

[Table of Contents](#)

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION OF EXHIBIT</b>
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).
10.3-10.5	[Reserved].
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 and Addendum, 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).
10.9(a)	Addendum No. 2, dated July 1, 1999, between the Registrant and Richard and Donna Piazza, regarding 1108-B Manhattan Avenue, Manhattan Beach, California.
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).
- 10.10(h) Sixth Amendment to Amended and Restated Loan and Security Agreement dated June 12, 2002.
- 10.10(i) Seventh Amendment to Amended and Restated Loan and Security Agreement dated April 18, 2002.
- 10.10(j) Eighth Amendment to Amended and Restated Loan and Security Agreement dated September 30, 2002.
- 10.10(k) Ninth Amendment to Amended and Restated Loan and Security Agreement dated August 18, 2003.

[Table of Contents](#)

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION OF EXHIBIT</b>
10.10(l)	Tenth Amendment to Amended and Restated Loan and Security Agreement dated December 31, 2003.
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 and Addendum, 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).
10.13(a)	Addendum No. 2, dated June 12, 1998, between the Registrant and Richard and Donna Piazza, regarding 1112 Manhattan Avenue, Manhattan Beach, California.
10.14	Lease Agreement, dated November 21, 1997, between the Registrant and The Prudential Insurance Company of America, regarding 1661 South 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).
10.14(a)	First Amendment to Lease Agreement, dated April 26, 2002, between the Registrant and ProLogis California I LLC, regarding 1661 South 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 South 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).
10.15(a)	First Amendment to Lease Agreement, dated April 26, 2002, between the Registrant and Cabot Industrial Properties, L.P. , regarding 1777 South 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	Lease Agreement and Addendum, 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.
10.18(a)	Lease Agreement and Addendum, 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.,

[Table of Contents](#)

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION OF EXHIBIT</b>
	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).
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 (incorporated by reference to exhibit number 10.27 of the Registrant's Form 10-K for the year ending December 31, 2001).
10.27(a)	First Amendment to Lease Agreement, dated October 26, 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 (incorporated by reference to exhibit number 10.28 of the Registrant's Form 10-K for the year ending December 31, 2001).
10.28(a)	First Amendment to Lease Agreement, dated October 22, 2003, between the Registrant and ProLogis California I LLC, regarding 4100 East Mission Boulevard, Ontario, California.
10.29	Lease Agreement, dated February 8, 2002, between Skechers International, a subsidiary of the Registrant, and ProLogis Belgium II SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.29 of the Registrant's Form 10-K for the year ending December 31, 2002).
21.1	Subsidiaries of the Registrant
23.1	Independent Auditors Consent
24.1	Power of Attorney (included on signature page)
33.1	Certification of the Chief Executive Officer pursuant Securities Exchange Act Rule 13a-14(a)

31.2 Certification of the Chief Financial Officer pursuant Securities Exchange Act Rule 13a-14(a)

32 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



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 12th day of March 2004.

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.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/S/ ROBERT GREENBERG</u> Robert Greenberg	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 12, 2004
<u>/S/ MICHAEL GREENBERG</u> Michael Greenberg	President and Director	March 12, 2004
<u>/S/ DAVID WEINBERG</u> David Weinberg	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 12, 2004
<u>/S/ JEFFREY GREENBERG</u> Jeffrey Greenberg	Director	March 12, 2004
<u>J. Geyer Kosinski</u>	Director	March __, 2004
<u>/S/ FREDERICK H. SCHNEIDER, JR.</u> Frederick H. Schneider, Jr.	Director	March 12, 2004
<u>Richard Siskind</u>	Director	March __, 2004

SKECHERS U.S.A., INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<b>PAGE</b>
Independent Auditors' Report	F-2
Consolidated Balance Sheets — December 31, 2002 and 2003	F-3
Consolidated Statements of Operations — Three years ended December 31, 2003	F-4
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)- Three years ended December 31, 2003	F-5
Consolidated Statements of Cash Flows — Three years ended December 31, 2003	F-6
Notes to Consolidated Financial Statements	F-7

## 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, 2002 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, 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.

/s/ KPMG LLP

Los Angeles, California  
February 19, 2004

SKECHERS U.S.A., INC.  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2002 AND 2003  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS

	2002	2003
Current assets:		
Cash and cash equivalents	\$ 124,830	\$ 113,479
Trade accounts receivable, less allowances of \$8,498 in 2002 and \$7,861 in 2003	97,419	98,751
Due from officers and employees	617	623
Other receivables	7,144	3,910
	<u>105,180</u>	<u>103,284</u>
Total receivables		
	105,180	103,284
Inventories	147,984	137,917
Prepaid expenses and other current assets	14,779	12,366
Deferred tax assets	703	5,621
	<u>393,476</u>	<u>372,667</u>
Total current assets		
	393,476	372,667
Property and equipment, at cost, less accumulated depreciation and amortization	83,666	86,324
Intangible assets, at cost, less applicable amortization	356	2,006
Other assets, at cost	5,658	5,536
	<u>\$ 483,156</u>	<u>\$ 466,533</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term borrowings	\$ 2,442	\$ 3,226
Accounts payable	88,578	78,725
Accrued expenses	15,696	12,881
	<u>106,716</u>	<u>94,832</u>
Total current liabilities		
	106,716	94,832
4.50% convertible subordinated notes	90,000	90,000
Long-term borrowings, excluding current installments	27,204	26,047
	<u>223,920</u>	<u>210,879</u>
Total liabilities		
	223,920	210,879
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value. Authorized 10,000 shares; none issued and outstanding	—	—
Class A Common stock, \$.001 par value. Authorized 100,000 shares; issued and outstanding 18,369 and 19,116 shares at December 31, 2002 and 2003, respectively	18	19
Class B Common stock, \$.001 par value. Authorized 60,000 shares; issued and outstanding 19,317 and 18,886 shares at December 31, 2002 and 2003, respectively	19	19
Additional paid-in capital	102,109	105,272
Accumulated other comprehensive income	3,016	8,137
Retained earnings	154,074	142,207
	<u>259,236</u>	<u>255,654</u>
Total stockholders' equity		
	259,236	255,654
	<u>\$ 483,156</u>	<u>\$ 466,533</u>

See accompanying notes to consolidated financial statements.

## SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF OPERATIONS  
THREE YEARS ENDED DECEMBER 31, 2001, 2002, and 2003  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	2001	2002	2003
Net sales	\$960,385	\$943,582	\$834,976
Cost of sales	554,205	556,909	517,290
Gross profit	406,180	386,673	317,686
Royalty income, net	(303)	1,145	4,170
	405,877	387,818	321,856
Operating expenses:			
Selling	111,401	94,274	84,653
General and administrative	205,989	210,889	238,550
	317,390	305,163	323,203
Earnings (loss) from operations	88,487	82,655	(1,347)
Other income (expense):			
Interest, net	(13,852)	(8,927)	(8,839)
Other, net	1,320	1,613	(187)
	(12,532)	(7,314)	(9,026)
Earnings (loss) before income taxes	75,955	75,341	(10,373)
Income taxes	28,685	28,305	1,494
Net earnings (loss)	\$ 47,270	\$ 47,036	\$ (11,867)
Net earnings (loss) per share:			
Basic	\$ 1.30	\$ 1.26	\$ (0.31)
Diluted	\$ 1.24	\$ 1.20	\$ (0.31)
Weighted-average shares:			
Basic	36,409	37,275	37,840
Diluted	38,059	40,854	37,840

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)  
THREE YEARS ENDED DECEMBER 31, 2001, 2002, AND 2003  
(IN THOUSANDS)

See accompanying notes to consolidated financial statements

	COMMON STOCK				ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES		AMOUNT					
	CLASS A	CLASS B	CLASS A	CLASS B				
Balance at December 31, 2000	10,789	24,805	\$ 10	\$ 25	\$ 74,243		\$ 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	136	—	—	—	1,689	—	—	1,689
Proceeds from issuance of common stock under the employee stock option plan	1,081	—	1	—	7,679	—	—	7,680
Tax effect of non-qualified stock options	—	—	—	—	8,298	—	—	8,298
Conversion of Class B common stock into Class A common stock	3,323	(3,323)	4	(4)	—	—	—	0
Balance at December 31, 2001	15,329	21,482	15	21	91,909	33	107,038	199,016
Comprehensive income:								
Net earnings	—	—	—	—	—	—	47,036	47,036
Foreign currency translation adjustment	—	—	—	—	—	2,983	—	2,983
Contribution of common stock to the 401(k) Plan	48	—	—	—	702	—	—	702
Proceeds from issuance of common stock under the employee stock purchase plan	175	—	—	—	1,777	—	—	1,777
Proceeds from issuance of common stock under the employee stock option plan	652	—	1	—	4,674	—	—	4,675
Tax effect of non-qualified stock options	—	—	—	—	3,047	—	—	3,047
Conversion of Class B common stock into Class A common stock	2,165	(2,165)	2	(2)	—	—	—	—
Balance at December 31, 2002	18,369	19,317	18	19	102,109	3,016	154,074	259,236
Comprehensive income (loss):								
Net loss	—	—	—	—	—	—	(11,867)	(11,867)
Foreign currency translation adjustment	—	—	—	—	—	5,121	—	5,121
Deferred compensation	—	—	—	—	123	—	—	123
Contribution of common stock to the 401(k) Plan	83	—	—	—	707	—	—	707

Proceeds from issuance of common stock under the employee stock purchase plan	196	—	—	—	1,319	—	—	1,319
Proceeds from issuance of common stock under the employee stock option plan	37	—	—	—	190	—	—	190
Tax effect of non-qualified stock options	—	—	—	—	824	—	—	824
Conversion of Class B common stock into Class A common stock	431	(431)	1	—	—	—	—	1
Balance at December 31, 2003	<u>19,116</u>	<u>18,886</u>	<u>\$ 19</u>	<u>\$ 19</u>	<u>\$ 105,272</u>	<u>\$ 8,137</u>	<u>\$ 142,207</u>	<u>\$ 255,654</u>

SKECHERS U.S.A., INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE YEARS ENDED DECEMBER 31, 2001, 2002, and 2003  
(IN THOUSANDS)

	2001	2002	2003
<b>Cash flows from operating activities:</b>			
Net earnings (loss)	\$ 47,270	\$ 47,036	\$ (11,867)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization of property and equipment	15,202	17,428	21,123
Amortization of deferred financing costs	—	541	765
Amortization of intangible assets	101	101	475
Provision for bad debts and returns	5,507	4,963	7,317
Tax benefit of non-qualified stock options	8,298	3,047	824
Non cash stock compensation	—	—	123
Deferred taxes	(390)	4,101	(4,918)
Loss on disposal of equipment	983	137	730
(Increase) decrease in assets:			
Receivables	(30,437)	13,660	(4,570)
Inventories	(45,951)	9,825	11,852
Prepaid expenses and other current assets	(11,238)	2,973	2,593
Other assets	429	197	(396)
Increase (decrease) in liabilities:			
Accounts payable	4,633	11,372	(8,890)
Accrued expenses	3,873	1,433	(2,842)
Net cash provided by (used in) operating activities	<u>(1,720)</u>	<u>116,814</u>	<u>12,319</u>
<b>Cash flows used in investing activities:</b>			
Capital expenditures	(31,519)	(14,520)	(20,664)
Acquisition of Canadian distributor	—	—	(2,344)
Purchase of intellectual property	—	—	(1,125)
Proceeds from the sales of property and equipment	—	—	16
Net cash used in investing activities	<u>(31,519)</u>	<u>(14,520)</u>	<u>(24,117)</u>
<b>Cash flows from financing activities:</b>			
Net proceeds from the sales of stock through employee stock purchase plan and the exercise of stock options	9,369	6,452	1,509
Net proceeds (payments) related to short-term borrowings	34,421	(84,175)	—
Payments on long-term debt	(3,811)	(2,453)	(2,420)
Proceeds from the issuance of convertible subordinated Notes, net of offering costs	—	86,175	—
Net cash provided by (used in) financing activities	<u>39,979</u>	<u>5,999</u>	<u>(911)</u>
Net increase (decrease) in cash	6,740	108,293	(12,709)
Effect of exchange rates on cash	33	983	1,358
Cash and cash equivalents at beginning of year	8,781	15,554	124,830
Cash and cash equivalents at end of year	<u>\$ 15,554</u>	<u>\$ 124,830</u>	<u>\$ 113,479</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ 13,613	\$ 8,283	\$ 8,451
Income taxes	27,220	19,192	4,267

**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:**

During 2002, the Company issued 48,072 shares of Class A common stock to the Company's 401k plan with a value of approximately \$702,000. In addition, the Company acquired equipment aggregating \$ 344,000 under capital lease obligations.

During 2003, the Company issued 83,351 shares of Class A common stock to the Company's 401k plan with a value of approximately



\$709,000. In addition, the Company acquired equipment aggregating \$2,260,000 under capital lease obligations.

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2003

(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. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

(b) Business Segment Information

Skechers operations are organized along its distribution channels and consists of the following operating segments:

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 three distinct 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. The products offered in our concept stores are full price in season product and typically attract fashion conscious customers.

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.

Detail segment information is provided in note 11.

(c) Revenue Recognition

The Company recognizes revenue from retail sales at the point of sale.

The Company recognizes revenue on wholesale sales when products are shipped and the customer takes title and assumes risk of loss, collection of relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are provided for when related revenue is recorded. Amounts billed for shipping and handling costs are recorded as a component of net sales. Related costs paid to third-party shipping companies are recorded as a cost of sales.

Revenues from royalty and licensing agreements are recognized as earned.

(d) Cash Equivalents

Cash equivalents consist primarily of certificates of deposit with an initial term of less than three months. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

[Table of Contents](#)

(e) Foreign Currency Translation

The Company considers the U.S. dollar as its functional currency. Assets and liabilities of the foreign operations denominated in local currencies are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the weighted average rate of exchange during the period. Translation of intercompany loans of a long-term investment nature are included as a component of translation adjustment in other comprehensive income. Total comprehensive income at December 31, consists of the following:

	2001	2002	2003
Net earnings (loss)	\$47,270	\$47,036	\$(11,867)
Accumulated other comprehensive income:			
Foreign currency translation adjustments	33	2,983	5,121
Total comprehensive income (loss)	\$47,303	\$ 50,019	\$ (6,746)
Accumulated other comprehensive income	\$ 33	\$ 3,016	\$ 8,137

(f) 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. Reserves are estimated based upon inventory on hand, historical sales activity, and the expected net realizable value. The net realizable value is determined based upon estimated sales prices of such inventory through off-price or discount store channels.

(g) 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. A valuation allowance is recorded to reduce deferred taxes to the amount that is more likely than not to be realized.

(h) 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, which ever is shorter

(i) SFAS No. 142, "Goodwill and Other Intangible Assets," eliminates the requirement to amortize goodwill and indefinite-lived intangible assets, requiring instead that those assets be measured for impairment at least annually, and more often when events indicate that impairment exists. Intangible assets with finite lives will continue to be amortized over their useful lives. Intangible assets, all subject to amortization, as of December 31, 2002 and 2003 are as follows (in thousands):

	December 31,	
	2002	2003
Intellectual property	\$ —	\$ 1,125
Other intangibles	—	1,000
Trademarks	1,050	1,050
Less accumulated amortization	(694)	(1,169)
	\$ 356	\$ 2,006



[Table of Contents](#)

## (j) Long-Lived Assets

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company recognized impairment charges of \$619,000 during the year ended December 31, 2003. The impairment charges related to the write down of fixed assets at three company owned retail stores.

## (k) 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, 2001, 2002 and 2003 was approximately \$86,625,000, \$76,824,000 and \$71,717,000, respectively. Prepaid advertising costs at December 31, 2002 and 2003 were \$1,114,000 and \$844,000, respectively. Prepaid amounts outstanding at December 31, 2002 and 2003 represents the unamortized portion of endorsement contracts and advertising in trade publications which had not run as of December 31, 2002 and 2003, respectively.

## (l) Earnings Per Share

Basic earnings per share represents net earnings (loss) divided by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share, in addition to the weighted average determined for basic earnings (loss) per share, includes potential common shares which would arise from the exercise of stock options using the treasury stock method, and the conversion of the Company's 4.50% Convertible Subordinated Notes for the period outstanding since their issuance in April 2002, if their effects are dilutive.

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

Basic earnings per share	Fiscal Year Ended December 31,		
	2001	2002	2003
Net earnings (loss)	\$47,270	\$47,036	\$(11,867)
Weighted average common shares outstanding	36,409	37,275	37,840
Basic earnings per share	\$ 1.30	\$ 1.26	\$ (0.31)

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

Diluted earnings per share	Fiscal Year Ended December 31,		
	2001	2002	2003
Net earnings (loss)	\$47,270	\$47,036	\$(11,867)
After tax effect of interest expense on 4.50% convertible subordinated notes	—	1,832	—
Earnings (loss) for purposes of computing diluted earnings per share	\$47,270	\$48,868	\$(11,867)
Weighted average common shares outstanding	36,409	37,275	37,840
Dilutive stock options	1,650	1,063	—
Weighted average assumed conversion of 4.50% convertible subordinated notes	—	2,516	—
Weighted average common shares outstanding	38,059	40,854	37,840
Diluted earnings per share	\$ 1.24	\$ 1.20	\$ (0.31)

[Table of Contents](#)

Options to purchase 279,500 and 931,922 shares of common stock at prices ranging from \$15.50 to \$29.45 were outstanding at December 31, 2001 and 2002, 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. Options to purchase 5,232,487 shares of common stock at prices ranging from \$2.78 to \$24.00 were outstanding at December 31, 2003, but were not included in the computation of the loss per share for the year ending December 31, 2003, because their effect would have been anti-dilutive. The impact from the assumed conversion of the 4.50% convertible subordinated notes in 2003 was anti-dilutive and, therefore excluded from the 2003 calculation.

(m) Stock Compensation

The Company accounts for stock-based compensation under the provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended. Under the provisions of SFAS 123, the Company has elected to continue to measure compensation cost for employees and nonemployee directors of the Company under the intrinsic value method of APB No. 25 and comply with the pro forma disclosure requirements under SFAS 123. The Company applies the fair value techniques of SFAS 123 to measure compensation cost for options/warrants granted to nonemployees.

The following table illustrates the effects on net earnings (loss) had the fair value-based method been applied to all outstanding and unvested awards in each period (in thousands).

	2001	2002	2003
Net earnings (loss), as reported	\$47,270	\$47,036	\$(11,867)
Deduct total stock-based employee compensation expense under fair value-based method for all awards	(9,201)	(8,746)	(6,231)
Pro forma net earnings (loss) for basic pro forma earnings per share	38,069	38,290	(18,098)
Add back interest on 4.50% debentures, net of tax	—	1,832	—
Pro forma net earnings (loss) for diluted pro forma earnings per share	\$38,069	\$40,122	\$(18,098)
Pro forma net earnings (loss) per share:			
Basic	\$ 1.05	\$ 1.03	\$ (0.48)
Diluted	1.00	0.98	(0.48)

Pro forma basic net earnings (loss) per share represents net pro forma earnings (loss) divided by the weighted average number of common shares outstanding for the period. Pro forma diluted earnings (loss) per share, in addition to the weighted average determined for pro forma basic earnings (loss) per share, includes common stock equivalents which would arise from the exercise of stock options using the treasury stock method, and assumes the conversion of the Company's 4.50% Convertible Subordinated Notes for the period outstanding since their issuance in April 2002, if their effects are dilutive.

(n) 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.

(o) 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 \$5,493,000, \$5,984,000 and \$6,096,000 during the years ended December 31, 2001, 2002 and 2003, respectively.

(p) Fair Value of Financial Instruments

## [Table of Contents](#)

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 borrowings reflects the fair value based upon current rates available to the Company for similar debt. The fair value of the Company's 4.50% Convertible Subordinated Notes at December 31, 2003 was \$82.1 million, based on the price of the debt in the public market, compared to a carrying value of \$90.0 million.

### (q) New Accounting Standards

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 is applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No. 145 did not have a material effect on our consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 did not have a material effect on our consolidated financial statements.

In September 2002, the FASB Emerging Issues Task Force issued EITF No. 02-16, *Accounting by a Reseller for Cash Consideration Received from a Vendor*. EITF No. 02-16, which provides that cash consideration received from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction in cost of sales unless it is a payment for assets or services delivered to the vendor, in which case the cash consideration should be characterized as revenue, or unless it is a reimbursement of costs incurred to sell the vendor's products, in which case the cash consideration should be characterized as a reduction of that cost. EITF No. 02-16 became effective for us in the first quarter of 2003, and had no impact on our consolidated financial statements, as we have historically accounted for vendor payments in accordance with the provisions of this standard.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The disclosure requirements are effective for interim and annual financial statements ending after December 15, 2002. The Company does not have any material guarantees that require disclosure under FIN 45.

FIN 45 also requires displaying the recognition of a liability by a guarantor at the inception of certain guarantees. FIN 45 requires the guarantor to recognize a liability for the non-contingent component of a guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements. The initial recognition and measurement provisions are effective for all guarantees within the scope of FIN 45 issued or modified after December 31, 2002.

As noted above the Company has adopted the disclosure requirements of FIN 45 and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002. For the year ended December 31, 2003, the Company did not enter into any guarantees within the scope of FIN 45.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51,* which addresses consolidation by business enterprises of variable interest entities ("VIEs") either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In

[Table of Contents](#)

December 2003, the FASB completed deliberations of proposed modifications to FIN 46 ("Revised Interpretations") resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretations. Special Purpose Entities ("SPEs") created prior to February 1, 2003 may be accounted for under the original or revised interpretation's provisions. Non-SPEs created prior to February 1, 2003, should be accounted for under the Revised Interpretation's provisions. The Revised Interpretations are effective for periods after June 15, 2003 for VIEs in which the Company holds a variable interest it acquired before February 1, 2003. For entities acquired or created before February 1, 2003, the Revised Interpretations are effective no later than the end of the first reporting period that ends after March 15, 2004, except for those VIEs that are considered to be special-purpose entities, for which the effective date is no later than the end of the first reporting period that ends after December 31, 2003. The adoption of FIN 46 and the Revised Interpretations has not and is not expected to have an impact on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards on the classification and measurement of certain instruments with characteristics of both liabilities and equity. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 requires the classification of any financial instruments with a mandatory redemption feature, an obligation to repurchase equity shares, or a conditional obligation based on the issuance of a variable number of its equity shares, as a liability. The adoption of SFAS No. 150 did not have a material effect on the consolidated financial statements.

## (2) PROPERTY AND EQUIPMENT

Property and equipment at December 31, is summarized as follows (in thousands):

	2002	2003
Land	\$ 12,358	\$ 12,358
Buildings and improvements	21,144	21,445
Furniture, fixtures and equipment	55,431	68,141
Leasehold improvements	41,149	50,262
Total property and equipment	130,082	152,206
Less accumulated depreciation and amortization	46,416	65,882
Property and equipment, net	\$ 83,666	\$ 86,324

## (3) ACCRUED EXPENSES

Accrued expenses at December 31, is summarized as follows (in thousands):

	2002	2003
Accrued inventory purchases	\$ 6,814	\$ 3,401
Accrued payroll and related taxes	6,327	6,796
Taxes payable	1,397	75
Accrued interest	839	839
Other accrued liabilities	319	1,770
Accrued expenses	\$15,696	\$12,881

## (4) SHORT-TERM BORROWINGS

The Company has available a secured line of credit, as amended on December 31, 2003, permitting borrowings up to \$150.0 million based upon eligible accounts receivable and inventories. Borrowings bear interest at the prime rate (4.0% at December 31, 2003) minus 0.50%, and the agreement expires on December 31, 2005. 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, 2003 were \$3.8 million. Available borrowings under the line of credit at December 31, 2003 were \$99.4 million and no amounts were outstanding at December 31, 2003 and 2002. The Company pays an unused line of credit fee of .25% annually. The agreement provides the following financial covenants should the loan balance exceed 60% of all eligible accounts, that stockholders' equity shall not decrease by more than 20% in any given calendar quarter, contains a tangible net worth requirement as





[Table of Contents](#)

defined in the agreement, and limits the payment of dividends if in default of any provision of the agreement. The Company was in compliance with these covenants at December 31, 2003.

(5) LONG-TERM BORROWINGS

Long-term debt at December 31, 2002 and 2003 is as follows (in thousands):

	2002	2003
4.50% Convertible Subordinated Notes due April 15, 2007 (see below)	\$ 90,000	\$ 90,000
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	10,558	10,388
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	7,702	7,615
Capital lease obligation, due in aggregate monthly installments of \$195 (includes principal and interest, interest rate of 7.66%, secured by equipment, balloon payment of \$4,431 due February 2006 (see note 10))	9,847	8,208
Capital lease obligation, due in quarterly installments of \$171.6 (includes principal and interest), fixed rate of interest at 7.0%, secured by property, through July 2007 (see note 10)	—	2,052
Capital lease obligations, due in aggregate monthly installments of \$60, interest rates from 7.25%-9.59%, secured by equipment, maturing in various installments through January 2007 (see note 10)	1,539	1,010
	<u>119,646</u>	<u>119,273</u>
Less current installments	2,442	3,226
	<u>\$ 117,204</u>	<u>\$ 116,047</u>

The aggregate maturities of long-term borrowings at December 31, 2003 are as follows:

2004	\$ 3,226
2005	3,057
2006	5,668
2007	90,552
2008	377
Thereafter	16,393
	<u>\$ 119,273</u>

In April 2002, the Company issued \$90.0 million aggregate principal amount of 4.50% Convertible Subordinated Notes (the "Notes") due April 15, 2007. The Notes are convertible into shares of Class A common stock. Interest on the Notes is paid semi-annually on April 15 and October 15 of each year, and commenced on October 15, 2002. The Notes are convertible at the option of the holder into shares of Class A common stock at a conversion rate of 38.5089 shares of Class A common stock per \$1,000 principal amount of Notes, which is equivalent to a conversion price of approximately \$25.968 per share. The conversion rate is subject to adjustment under certain specific circumstances. The Notes may be converted at any time on or before the close of business on the maturity date, unless the Notes have been previously redeemed or repurchased; provided, however, that if a Note is called for redemption or repurchase, the holder will be entitled to convert the Notes at any time before the close of business on the date immediately preceding the date fixed for redemption or repurchase, as the case may be. The Notes are unsecured and subordinated to our present and future Senior Debt, as defined in the indenture. The Notes are also structurally subordinated in right of payment to all indebtedness and other liabilities of the Company's subsidiaries. The indenture under which the Notes were issued does not restrict the incurrence of indebtedness, including Senior Debt, or the subsidiaries' incurrence of indebtedness. Net proceeds from the issuance of the Notes were \$86.2 million, of which \$65.0 million was used to repay amounts owing under the Company's line of credit and the remaining proceeds were used for working capital. The costs associated with the issuance of the Notes, approximately \$3.8 million, are amortized using the effective interest method over the life of the Notes and are included in interest expense as amortized.

## (6) STOCKHOLDERS' EQUITY

### (a) Stock Issuances

The authorized capital stock of the Company 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.

During 2002 and 2003 certain Class B stockholders converted 2,164,554 and 431,056 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. In May 2003, stockholders approved an amendment to the plan to increase the number of Class A common stock authorized for issuance under the plan to 11,215,154. 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, 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
Granted	1,689,595	7.77
Exercised	(652,396)	7.17
Canceled	(105,974)	11.22
Outstanding at December 31, 2002	5,429,383	10.89
Granted	267,500	7.99
Exercised	(36,491)	5.21
Canceled	(427,905)	11.27
Outstanding at December 31, 2003	5,232,487	\$ 10.75
Options available for grant at December 31, 2003	3,791,424	

The following table summarizes information about stock options outstanding and exercisable at December 31, 2003:

RANGE OF EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING DECEMBER 31, 2003	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 2003	WEIGHTED AVERAGE EXERCISE PRICE
\$2.78 to \$8.83	1,935,191	7.8 years	\$ 6.35	1,124,947	\$ 5.80
\$8.84 to \$11.78	1,560,379	6.8 years	10.72	1,144,764	10.73
\$11.79 to \$20.61	1,436,167	6.7 years	14.04	1,227,129	13.81
\$20.62 to \$24.00	300,750	7.0 years	23.55	214,500	23.70
	<u>5,232,487</u>	7.2 years	10.75	<u>3,711,340</u>	\$ 11.00

At December 31, 2001, 2002 and 2003, the number of options exercisable for each year was 1,249,681, 2,436,449, and 3,711,340 respectively. The weighted-average exercise price of those options was \$11.06, \$10.98 and \$11.00 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 2001, 2002 and 2003, 135,600 and 175,098 and 195,893 shares were issued under the 1998 Stock Purchase Plan for which the Company received \$1,689,000, \$1,777,000, and \$1,319,000, respectively.

(d) Stock Compensation

For pro forma net income purposes, the fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. The weighted-average assumptions used for grants were as follows:

	2001	2002	2003
Dividend yield	—	—	—
Expected volatility	80%	82%	77%
Risk-free interest rate	4.2%	2.7%	2.5%
Expected life of option	5	5	5

The weighted-average fair value per share of options granted during 2001, 2002, and 2003 were \$9.55, \$5.02, and \$4.95, respectively.

(7) INCOME TAXES

The provisions for income tax expense were as follows (in thousands):

	2001	2002	2003
Actual income taxes:			
Federal:			
Current	\$24,134	\$ 20,031	\$ 4,956
Deferred	16	3,398	(3,223)
Total federal	<u>24,150</u>	<u>23,429</u>	<u>1,733</u>
State:			
Current	4,627	3,592	1,139
Deferred	(406)	703	(570)
Total state	<u>4,221</u>	<u>4,295</u>	<u>569</u>
Foreign :			
Current	314	581	317
Deferred			

	—	—	(1,125)
	<u>          </u>	<u>          </u>	<u>          </u>
Total actual income taxes	\$28,685	\$ 28,305	\$ 1,494
	<u>          </u>	<u>          </u>	<u>          </u>

Income taxes differs from the statutory tax rate as applied to earnings before income taxes as follows (in thousands):

[Table of Contents](#)

	2001	2002	2003
Expected income tax expense	\$26,584	\$26,364	\$(3,594)
State income tax, net of federal benefit	2,744	2,767	240
Rate differential on foreign income	(822)	(1,003)	4,358
Non-deductible expenses	387	422	342
Other	(208)	(245)	148
<b>Total provision for income taxes</b>	<b>\$28,685</b>	<b>\$ 28,305</b>	<b>\$ 1,494</b>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2002 and 2003 are presented below (in thousands):

<b>DEFERRED TAX ASSETS:</b>	2002	2003
Inventories	\$2,221	\$2,649
Accrued expenses	1,354	2,066
Receivables	1,491	2,563
Property and equipment	—	1,585
Loss carryforward	—	1,126
Other	163	—
<b>Total deferred tax assets</b>	<b>5,229</b>	<b>9,989</b>
<b>Deferred tax liabilities:</b>		
Prepaid expenses	2,401	3,071
Deferred revenue	1,092	1,114
Property and equipment	843	—
Other	190	183
<b>Total deferred tax liabilities</b>	<b>4,526</b>	<b>4,368</b>
<b>Net deferred tax assets</b>	<b>\$ 703</b>	<b>\$ 5,621</b>

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.

Consolidated U.S. income (loss) before taxes was \$69.7 million, \$69.3 million, and \$2.0 million for the years ended December 31, 2001, 2002, and 2003, respectively. The corresponding income (loss) before taxes for non-U.S. based operations was \$6.3, \$6.0, and (\$12.4) million for the years ended December 31, 2001, 2002, and 2003, respectively.

The Company has not provided withholding and U.S. federal income taxes on approximately \$5.6 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, which would be payable if such earnings were not reinvested for the foreseeable future.

#### (8) BUSINESS AND CREDIT CONCENTRATIONS

The Company operates in the footwear industry and generates most of its sales in the United States, although its 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 \$86,801,000 and \$83,054,000 before allowances for bad debts and sales returns, and chargebacks at December 31, 2002 and 2003, respectively, which generally do not require collateral from customers. Foreign accounts receivable amounted to \$19,116,000 and \$23,558,000 before allowance for bad debts, sales returns, and chargebacks at December 31, 2002 and 2003, respectively, which generally are collateralized by letters of credit. International net sales amounted to \$121,001,000, \$134,955,000 and \$132,031,000 for the years ended December 31, 2001, 2002 and 2003, respectively. The Company's credit losses due to write-offs for the years ended December 31, 2001, 2002 and 2003 were \$3,546,000, \$2,654,000 and \$7,955,000 respectively, and did not significantly differ from management's expectations.

Net sales to customers in the United States of America exceeded 80% of total net sales for each of the years in the three-year period ended December 31, 2003. Assets located outside of the United States of America consists primarily of cash, accounts

---

[Table of Contents](#)

receivable, inventory, property and equipment, and other assets and totaled \$66,850,000 and \$92,341,000, at December 31, 2002 and 2003, respectively.

During 2001, 2002 and 2003, no customer accounted for 10% or more of net sales. No one customer accounted for greater than 10% of trade accounts receivable at December 31, 2002. At December 31, 2003, one customer accounted for 10.6% of net trade receivables.

During 2001, the Company had four manufacturers that accounted for between 7.9% and 19.9%, each, of total purchases. During 2002, the company had four manufacturers that accounted for between 9.3% and 22.7%, each, of total purchases. During 2003, the company had four manufacturers that accounted for between 7.4% and 24.6%, 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.

(9) 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 \$702,000, \$709,000 and \$764,000 for the years ended December 31, 2001, 2002 and 2003, respectively. As its contribution to the plan in 2002 and 2003, the Company issues 83,351 and 93,692 shares of its Class A common stock, the shares were issued in the first quarter of 2003 and 2004, respectively. The shares contributed to the plan contain certain restrictions regarding the subsequent sales of those shares.

(10) COMMITMENTS AND CONTINGENCIES

(a) Leases

The Company leases facilities under operating lease agreements expiring through July 2027. The Company pays taxes, maintenance and insurance, in addition to the lease obligation. The Company also leases certain equipment and automobiles under operating lease agreements expiring at various dates through April 2006. Rent expense for the years ended December 31, 2001, 2002 and 2003 approximated \$18,014,000, \$22,167,000 and \$29,038,000 respectively.

The Company also leases certain property and equipment under capital lease agreements requiring monthly installment payments through July 2007. The cost of this property and equipment was \$17,970,000 with a net book value of \$6,678,000 at December 31, 2003.

Future minimum lease payments under noncancellable leases at December 31, 2002 are as follows (in thousands):

	<u>CAPITAL LEASES</u>	<u>OPERATING LEASES</u>
Year ending December 31:		
2004	\$ 3,754	\$ 31,206
2005	3,404	29,983
2006	5,411	28,103
2007	200	25,853
2008	—	21,269
Thereafter	—	86,690
	<u>12,769</u>	<u>\$223,104</u>
Less imputed interest	<u>1,499</u>	
Present value of net minimum lease payments	<u>\$ 11,270</u>	



## [Table of Contents](#)

The Company leases office space to unrelated third parties under noncancellable operating leases expiring through November 2009, annual rentals are approximately \$56,000 for the each of the years ended December 31, 2004 through 2008, and \$50,000 thereafter.

### (b) Litigation

On December 2, 2002, a class action complaint entitled OMAR QUINONES v. SKECHERS USA, INC. et al. was filed in the Superior Court for the State of California for the County of Orange (Case No. 02CC00353). The complaint, as amended, alleges overtime and related violations of the California Labor Code on behalf of managers of Skechers' retail stores and seeks, inter alia, damages and restitution, as well as injunctive and declaratory relief. On February 25, 2003, another related class action complaint entitled MYRNA CORTEZ v. SKECHERS USA, INC. et al. was filed in the Superior Court for the State of California for the County of Los Angeles (Case No. BC290932) asserting similar claims and seeking similar relief on behalf of assistant managers. While it is too early in the litigation to predict the outcome of the claims against Skechers, Skechers believes that it has meritorious defenses to the claims asserted in both class actions and intends to defend against those claims vigorously. Further, Skechers is unable to determine the extent, if any, of any liability however, and does not believe that an adverse result would have a material effect on Skechers' consolidated financial position or results of operations.

On February 6, 2003, a complaint captioned ADIDAS AMERICA, INC. and ADIDAS-SALOMON AG v. SKECHERS USA, INC. et al. was filed against Skechers in the United States District Court for the District of Oregon (Case No. CV 03-170 KI). The complaint alleges claims for trademark infringement, trademark dilution, unfair competition and deceptive trade practices arising out of Skechers' alleged use of marks confusingly similar to Adidas' three stripe mark. The lawsuit seeks, inter alia, compensatory, treble and punitive damages, as well as injunctive relief. On October 15, 2003, the parties settled the suit and all written documentation has been executed. The terms of the settlement are confidential and did not have a material effect on Skechers' consolidated financial position or results of operations.

On March 25, 2003, a shareholder securities class action complaint captioned HARVEY SOLOMON v. SKECHERS USA, INC. et al. was filed against Skechers and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-2094 DDP). On April 2, 2003, a shareholder securities class action complaint captioned CHARLES ZIMMER v. SKECHERS USA, INC. et al. was filed against Skechers and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-2296 PA). On April 15, 2003, a shareholder securities class action complaint captioned MARTIN H. SIEGEL v. SKECHERS USA, INC. et al. was filed against Skechers and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-2645 RMT). On May 6, 2003, a shareholder securities class action complaint captioned ADAM D. SAPHIER v. SKECHERS USA, INC. et al. was served on Skechers and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-3011 FMC). On May 9, 2003, a shareholders securities class action complaint captioned LARRY L. ERICKSON v. SKECHERS USA, INC. et al. was served on Skechers and certain of its officers and directors in the United States District Court for the Central District of California (Case No. 03-3101 SJO). Each of these class action complaints alleged violations of the federal securities laws on behalf of persons who purchased publicly traded securities of SKECHERS between April 3, 2002 and December 9, 2002. In July 2003, the court in these federal securities class actions, all pending in the United States District Court for the Central District of California, ordered the cases consolidated and a consolidated complaint to be filed and served. On September 25, 2003, the plaintiffs filed a consolidated complaint entitled In re SKECHERS USA, Inc. Securities Litigation, Case No. CV-03-2094-PA in the United States District Court for the Central District of California, consolidating all of the federal securities actions above. The complaint names as defendants SKECHERS and certain officers and directors and alleges violations of the federal securities laws and breach of fiduciary duty on behalf of persons who purchased publicly traded securities of SKECHERS between April 3, 2002 and December 9, 2002. The complaint seeks compensatory damages, interest, attorneys' fees and injunctive and equitable relief. While it is too early to predict the outcome of the litigation, the Company believes the suit is without merit and intends to vigorously defend the suit.

On April 3, 2003, a shareholder derivative complaint captioned BRADFORD MITCHELL v. JEFFREY GREENBERG et al. was filed against Skechers and certain of its officers in the Superior Court of the State of California, Los Angeles County (Case

## [Table of Contents](#)

No. BC 293317). On April 3, 2003, a shareholder derivative complaint captioned GEORGIA MANOLAS v. JEFFREY GREENBERG et al. was filed against Skechers and certain of its officers in the Superior Court of the State of California, Los Angeles County (Case No. BC293388). On April 8, 2003, a shareholder derivative complaint captioned JEFF GRAVITTER v. ROBERT Y. GREENBERG was filed against Skechers and certain of its officers in the Superior Court of the State of California, Los Angeles County (Case No. BC293561). Each of these class action complaints included allegations of violations of California Corporation Code § 25402 and breach of fiduciary duty. On August 29, 2003, the plaintiffs in these state derivative actions filed a consolidated complaint entitled In re SKECHERS USA, Inc. Derivative Litigation, Case No. BC-293317, in the Superior Court of the State of California, Los Angeles County, consolidating all of the state derivative actions above. The complaint alleges violations of California Corporation Code § 25402, breaches of fiduciary duty, waste of corporate assets and unjust enrichment. The complaint seeks compensatory damages, treble damages, disgorgement of profits, imposition of a constructive trust, equitable and injunctive relief, and costs. While it is too early to predict the outcome of the litigation, the Company believes the suit is without merit and intends to vigorously defend against the claims.

On July 11, 2003 MG Footwear Inc., commenced a lawsuit against Skechers in the United States District Court for the District of New Jersey, MG FOOTWEAR, LLC v. SKECHERS USA, INC., Case No. 03-3252 (DMC), alleging inducement of breach of contract and interference with contractual relations between MG Footwear and Yakira, LLC. The suit seeks \$50 million dollars in punitive damages. The matter was stayed pending the outcome of a related arbitration between MG Footwear and Yakira, LLC.. The Company plans on defending the allegations vigorously and believes the claims are without merit. Nonetheless, it is too early to predict the outcome and predict whether the outcome will have an adverse impact on the Company's consolidated financial statements or results of operations.

We occasionally become involved in litigation arising from the normal course of business, with respect to the above cases, we are unable to determine the extent of any liability that may arise. Other than the foregoing, we have no reason to believe that any liability with respect to pending legal actions, individually or in the aggregate, will have a material adverse effect on the Company's consolidated financial statements or results of operations.

### (c) Purchase Commitments

At December 31, 2003, the Company had purchase commitments of approximately \$153,500,000 for the purchase of footwear.

The Company finances production activities in part through the use of interest-bearing open purchase arrangements with certain of its international manufacturers. These arrangements currently bear interest at rates between 0% and 1.5% per 30 to 60 day term. The amounts outstanding under these arrangements at December 31, 2002 and 2003 were \$51,411,000 and \$43,314,000, respectively, which are included in accounts payable in the accompanying consolidated balance sheets. Interest expense incurred by the Company under these arrangements amounted to \$5,900,000 in 2001, \$2,278,000 in 2002, and \$1,883,000 in 2003.

### (11) SEGMENT INFORMATION

In accordance with the requirement of SFAS 131, "*Disclosures about Segments of an Enterprise and Related Information*," the Company's reportable business segments and respective accounting policies of the segments are the same as described in Note 1. The company has two reportable segments— domestic wholesale and distributor sales. Our other wholesale distribution channel, international wholesale, does not have similar economic characteristics since the margins, customer base, and distribution channels are different. In addition, each of our retail store formats, Concept, Factory Outlet, and Warehouse Outlet stores, have a different (i) mix of product offerings, (ii) price points, (iii) gross margins, (iv) demographics of the store location, and (v) physical store size and layout. The Company reports these segments in the all other category. Management evaluates segment performance based primarily on net sales and gross margins.

All costs and expenses of the Company are analyzed on an aggregate basis and these costs are not allocated to the Company's segments. The vast majority of the Company's capital expenditures related to the retail operations both domestically and internationally. Net sales and gross margins for the domestic wholesale segment, distributor segment, and the all other segments on a combined basis were as follows (in thousands).

	2001	2002	2003
<b>Net sales</b>			
Domestic wholesale	\$729,871	\$682,593	\$562,924
Distributor	99,780	82,497	70,380
All other	130,734	178,492	201,672
	<u>\$960,385</u>	<u>\$943,582</u>	<u>\$834,976</u>
<b>Gross profit</b>			
Domestic wholesale	\$298,179	\$262,441	\$185,849
Distributor	34,824	25,692	23,827
All other	73,177	98,540	108,010
	<u>\$406,180</u>	<u>\$386,673</u>	<u>\$317,686</u>
<b>Assets</b>			
Domestic wholesale	\$304,819	\$363,777	\$315,528
Distributor	34,167	41,284	48,698
All other	68,500	78,095	102,307
	<u>\$407,486</u>	<u>\$483,156</u>	<u>\$466,533</u>

Our distributor segment has intersegment sales to other distribution channels totaling \$17.6, \$37.0, and \$45.3 million for the three years ended December 31, 2001, 2002, and 2003, respectively, that are not included in the above net sales amounts.

(12) SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

2002	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Net sales	\$244,949	\$256,652	\$261,147	\$180,834
Gross profit	102,524	105,786	108,800	69,563
Net earnings (loss)	20,278	21,258	14,107	(8,607)
<b>Net earnings (loss)</b>				
per share:				
Basic	\$ .55	\$ .57	\$ .38	\$ (.23)
Diluted	.53	.52	.35	(.23)
2003	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Net sales	\$208,593	\$229,278	\$221,821	\$175,284
Gross profit	90,318	89,595	78,638	59,135
Net earnings (loss)	8,461	(2,125)	(5,860)	(12,343)
<b>Net earnings (loss)</b>				
per share:				
Basic	\$ .22	\$ (.06)	\$ (.15)	\$ (.33)
Diluted	.22	(.06)	(.15)	(.33)

## SKECHERS U.S.A., INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
YEARS ENDED DECEMBER 31, 2001, 2002, AND 2003

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS AND WRITE-OFFS	BALANCE AT END OF PERIOD
As of December 31, 2001:				
Allowance for chargebacks	\$ —	\$3,618,000	\$ —	\$3,618,000
Allowance for doubtful accounts	1,296,000	1,499,000	(1,723,000)	1,072,000
Reserve for sales returns and allowances	3,856,000	390,000	(1,823,000)	2,423,000
As of December 31, 2002:				
Allowance for chargebacks	\$ 3,618,000	\$ 1,138,000	\$ (925,000)	\$ 3,831,000
Allowance for doubtful accounts	1,072,000	1,409,000	(854,000)	1,627,000
Reserve for sales returns and allowances	2,423,000	2,416,000	(1,799,000)	3,040,000
As of December 31, 2003:				
Allowance for chargebacks	\$ 3,831,000	\$ 1,276,000	\$ (4,087,000)	\$ 1,020,000
Allowance for doubtful accounts	1,627,000	306,000	(734,000)	1,199,000
Reserve for sales returns and allowances	3,040,000	5,736,000	(3,134,000)	5,642,000

ADDENDUM #2  
TO  
STANDARD INDUSTRIAL/COMMERCIAL  
MULTI-TENANT LEASE - MODIFIED NET  
BY AND BETWEEN RICHARD AND DONNA PIAZZA,  
TRUSTEES OF THE PIAZZA FAMILY TRUST ("LESSOR")  
AND SKECHERS U.S.A., INC. ("LESSEE")

THIS ADDENDUM shall modify, delete from and add and replace by substitution to the STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE -- MODIFIED NET, dated July 1, 1999, for the Premises commonly known as 1108 (1108B) Manhattan Avenue, Manhattan Beach, California ("Lease"). Where any Article, Paragraph, Subparagraph or Clause of the Lease thereof is modified or deleted by this Addendum, the unaltered provisions of that Article, Paragraph, Subparagraph or Clause shall remain in effect. If and to the extent that this Addendum is inconsistent with the Lease, this Addendum shall control.

58. OPTION. Notwithstanding anything contained in the Lease to the contrary, Lessee shall have an additional one (1) time option to extend the term of the Lease for an additional five (5) years (i.e., March 1, 2007 to February 28, 2012) pursuant and subject to the terms, covenants and conditions of the lease, except that the Base Rent shall be determined pursuant to Paragraph 50. Lessee shall provide written notice to Lessor of Lessee's intention to extend the Lease pursuant to this Option prior to the expiration of the Original Term at lease one hundred eighty (180) days but not more than tow hundred seventy (270) days prior to such expiration. All other provisions related to the payment of rent under the terms of the Lease shall remain in full force and effect.

59. AUTHORIZATION FOR CONSTRUCTION. Lessor authorizes Lessee to commence construction of the Tenant Improvements to the Premises in line with and subject to the restriction contained hereinafter. In conjunction with this authorization, Lessee acknowledges its sole responsibility for such construction and hereby acknowledges Lessor's recordation of a Notice of Non Responsibility by Owner in reference thereto.

60. CONSTRUCTION DURING LEASE. Lessee agrees not to make any changes that will compromise or negate the Premises from its original purpose as a restaurant and Lessee further agrees that during the Original Term and any Option Period thereafter, Lessee shall not modify, improve or disturb the Premises such that the applicable provision of the Site Operational Restrictions provided in Condition 7 of the City of Manhattan Beach's Planning Commission Resolution regarding the Master Use Permit ("MUO") approved November 9, 1994 per Resolution PC-94 would be violated, a copy of which can be provided upon request ("City Resolution"). Lessee further agrees to pay any fees or costs in order to maintain temporary Conditional Use Permit ("CUP"), issued and approved pursuant to Condition 31 of the aforementioned City Resolution, for office space on a yearly basis, through the remainder of the Lease, including all Option Terms.

61. REVIEW OF PLANS. In order to ensure compliance with Paragraph 60 and in addition to any provisions related hereto in the Lease, Lessee agrees to provide Lessor with a copy of any plans, drawings, blueprints or other construction documents which show the proposed improvements to the Premises ("Plans"). Lessee shall have the right to review such Plans and reasonably object to any design or specification which would conflict with or otherwise disturb the restrictions of City Resolution.

1 of 2

Piazza/GM  
Addendum/Lease(1108)

62. PROPERTY TAX. Notwithstanding anything in the Lease to the contrary, Lessee agrees to pay any increase in property tax due to improvements made by Lessee.

63. ACKNOWLEDGMENT OF THE PARTIES. Lessor and Lessee acknowledge that the parties have entered into separate Commercial Lease Agreements for those certain portions of the Building commonly known as 1110 Manhattan Avenue, Manhattan Beach, California ("Upstairs Space") and 1112 Manhattan Avenue, Manhattan Beach, California. Said Leases have corresponding options to extend the original terms of the Leases through 2012.

IN WITNESS WHEREOF, the parties have executed this Sublease as of the date first above written.

LESSOR:

PIAZZA FAMILY TRUST  
DATED MARCH 1, 1993

/s/ RICHARD J. PIAZZA

-----  
RICHARD J. PIAZZA, TRUSTEE

/s/ DONNA J. PIAZZA

-----  
DONNA J. PIAZZA, TRUSTEE

LESSEE:

SKECHERS U.S.A., INC.  
A DELAWARE CORPORATION

/s/ PETER F. MOW

-----  
PETER F. MOW  
VICE PRESIDENT OF REAL ESTATE AND  
CONSTRUCTION

SIXTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Sixth Amendment to that certain Amended and Restated Loan and Security Agreement ("Amendment") is made and entered into as of June 12, 2002, by and between Skechers U.S.A., Inc. ("Borrower") and The CIT Group/Commercial Services, Inc. ("CIT"), successor by purchase to the Commercial Services Division of Heller Financial, Inc., as Agent and as Lender ("Agent"). All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Amended and Restated Loan and Security Agreement.

WHEREAS, Agent and Borrower are parties to a certain Amended and Restated Loan and Security Agreement, dated September 4, 1998 and all amendments thereto (the "Agreement"); and

WHEREAS, Borrower and Agent desire to amend the Agreement as hereinafter set forth;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. AMENDMENT

1.1 Delete the first paragraph of subsection 2.1(B) of the Agreement in its entirety and substitute the following:

(B) Revolving Loan: Each Lender, severally, agrees to lend to Borrower from time to time its Pro Rata Share of each Revolving Advance. The aggregate amount of all Revolving Loan Commitments shall not exceed at any time \$200,000,000 as reduced by subsection 2.4(B). Amounts borrowed under this subsection 2.1(B) may be repaid and reborrowed at any time prior to the earlier of (i) the termination of the Revolving Loan Commitment pursuant to subsection 8.3 or (ii) the Termination Date; provided, however that Borrower shall reduce the Revolving Loan to an amount not greater than the Cleanup Amount for at least one Business Day each consecutive twenty-one (21) day period. Except as otherwise provided herein, no Lender shall have any obligation to make a Revolving Advance to the extent such Revolving Advance would cause the Revolving Loan (after giving effect to any immediate application of the proceeds thereof) to exceed the Maximum Revolving Loan Amount.

1.2 Delete subsection 2.1(B)(2) of the Agreement in its entirety and substitute the following:

(2) "Borrowing Base" means, as of any date of determination, an amount equal to the sum of (a) 85% of Eligible Accounts plus (b) the lesser of (i) \$100,000,000 and (ii) 60% of Eligible Inventory (excluding Eligible Retail Inventory) plus (c) the lesser of (i) \$2,000,000 and (ii) fifty percent (50%) of the Eligible Retail Inventory plus (d) the Overadvance Amount; and less (e) in each case such reserves as Agent in its reasonable discretion may elect to establish.

1.3 Add the following at the end of the definition of "Eligible Accounts" set forth in Section 2.1(C) of the Agreement:

Borrower, Agent and the Lenders hereby agree that with respect to determining eligibility of Accounts arising from Borrower's rights to payment under that certain Credit Approved Receivables Purchasing Agreement dated as of May 31, 2000 between CIT and Borrower, as amended (the "CARPA"), the foregoing criteria shall be applied to the underlying Account purchased by CIT from Borrower pursuant to the CARPA arising from the sale of goods or the

rendering of services by Borrower.

- 1.4 Delete Section 9.5(B) of the Agreement in its entirety and substitute the following:

(B) Each Lender may sell participations in all or any part of any Loans made by it to another Person; provided that, any such participation shall be in a minimum amount of \$5,000,000; and provided further, that, all amounts payable by Borrower hereunder shall be determined as if that Lender had not sold such participation. Borrower hereby acknowledges and agrees that the participant under each participation shall for purposes of subsections 2.8, 2.9, 2.10, 9.6 and 10.2 be considered to be a "Lender". No such participant shall sell, pledge, assign, sub-participate or otherwise transfer its rights or duties under its participation agreement, without the prior written consent of Agent and Borrower; except to a parent, subsidiary or affiliate of such participant upon prior written notice to Agent and no such sale, pledge, assignment, sub-participation or other transfer shall release such participant from its obligations and liabilities under the Participation Agreement. Notwithstanding the foregoing, in the event of a sale of substantially all of the loan portfolio of any such participant to another financial institution, such participant may with thirty (30) days notice to Agent sell or assign or otherwise transfer its rights or duties under its participation agreement to such financial institution.

- 1.5 Delete the definition of "Accounts" set forth in Section 11.1 of the Agreement in its entirety and substitute the following:

"Accounts" means all "accounts" (as defined in the UCC), accounts receivable, contract rights and general intangibles relating thereto, notes, drafts and other forms of obligations owed to or owned by Borrower arising or resulting from the sale of goods or the rendering of services, whether or not earned by performance, including, without limitation, any rights to payment under that certain Credit Approved Receivables Purchasing Agreement dated as of May 31, 2000 between CIT and Borrower, as amended.

- 1.6 Delete the definition of "Letter of Credit Reserve" set forth in Section 11.1 of the Agreement in its entirety and substitute the following:

"Letter of Credit Reserve" means, at any time, an amount equal to (a) 50% of the aggregate amount of Letter of Credit Liability to the extent that such amount is \$1,000,000 or less, plus (b) 75% of the aggregate amount of Letter of Credit Liability to the extent that such amount exceeds \$1,000,000, plus (c) without duplication, the aggregate amount theretofore paid by Agent or any Lender under Lender Letters of Credit and not debited to the Loan Account pursuant to subsection 2.1(G)(2) or otherwise reimbursed by Borrower.

- 1.7 Add the following definition of "Tangible Net Worth" to Section 11.1 of the Agreement in proper alphabetical order:

"Tangible Net Worth" of any Person means as of any date, an amount equal to: (a) Net Worth of such Person; less (b) Intangible Assets of such Person; less (c) prepaid expenses of such Person in excess of \$250,000; less (d) all obligations owed to such Person by any Affiliate of such Person or any of its Subsidiaries; and less (e) all loans by such Person to its officers, stockholders, Subsidiaries or employees (determined in each case in conformity with GAAP); plus (f) the outstanding amount of Subordinated Debt.

- 1.8 Add the Financial Covenants Rider attached hereto as the "Financial



Covenants Rider" to the Agreement and reinsert all references in the Agreement to the Financial Covenants Rider or the financial covenants represented thereby previously deleted by the Fifth Amendment to Loan and Security Agreement dated as of July 11, 2001 between CIT and Borrower.

2

SECTION 2. RATIFICATION OF AGREEMENT

- 2.1 To induce CIT to enter into this Amendment, Borrower represents and warrants that after giving effect to this Amendment, no violation of the terms of the Agreement exist and all representations and warranties contained in the Agreement are true, correct and complete in all material respects on and as of the date hereof.
- 2.2 Except as expressly set forth in this Amendment, the terms, provisions and conditions of the Agreement are unchanged, and said Agreement, as amended, shall remain in full force and effect and is hereby confirmed and ratified.

SECTION 3. COUNTERPARTS

This Amendment may be executed in any number of counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument. Signature pages may be detached from counterpart documents and reassembled to form duplicate executed originals. This Amendment shall become effective as of the date hereof upon the execution of the counterparts hereof by Borrower, Guarantor and CIT.

SECTION 4. GOVERNING LAW

THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 5. ACKNOWLEDGMENT AND CONSENT BY GUARANTORS

Each Guarantor hereby acknowledges that it has read this Amendment and consents to the terms thereof and further hereby confirms and agrees that, notwithstanding the effectiveness of this Amendment, the obligations of such Guarantor under its respective guaranty shall not be impaired or affected and the guaranties are, and shall continue to be, in full force and effect and are hereby confirmed and ratified in all respects.

Witness the execution hereof by the respective duly authorized officers of the undersigned as of the date first above written.

THE CIT GROUP/COMMERCIAL SERVICES,  
INC., as Agent and as Lender

By: /s/ William F. Elliott

-----  
Title: Vice President

SKECHERS U.S.A., INC.

ATTEST:

/s/ Philip Paccione

-----  
Secretary

By: /s/ David Weinberg

-----  
Title: Chief Financial Officer

(SIGNATURES CONTINUED ON PAGE 3)

3

GUARANTOR:

SKECHERS USA, INC. II,  
a Delaware corporation

By: /s/ David Weinberg  
-----

Title: Chief Financial Officer

SKECHERS BY MAIL, INC.,  
a Delaware corporation

By: /s/ Philip Paccione  
-----

Title: Corporate Secretary

4

FINANCIAL COVENANTS RIDER

This Financial Covenants Rider is attached and made a part of that certain Amended and Restated Loan and Security Agreement, dated as of September 4, 1998 and entered into among Borrower, Agent and Lenders.

Tangible Net Worth. Borrower shall maintain Tangible Net Worth of at least \$125,000,000 at all times.

5

SEVENTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Seventh Amendment to that certain Amended and Restated Loan and Security Agreement ("Amendment") is made and entered into as of April 18, 2002, by and between Skechers U.S.A., Inc. ("Borrower") and The CIT Group/Commercial Services, Inc. ("CIT"), successor by purchase to the Commercial Services Division of Heller Financial, Inc., as Agent and as Lender ("Agent"). All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Amended and Restated Loan and Security Agreement.

WHEREAS, Agent and Borrower are parties to a certain Amended and Restated Loan and Security Agreement, dated September 4, 1998 and all amendments thereto (the "Agreement"); and

WHEREAS, Borrower and Agent desire to amend the Agreement as hereinafter set forth;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. AMENDMENT

- 1.1 Add the following new third paragraph at the end of subpart (A) of subsection 2.2:

Interest will be credited as of the last day of each month based on the daily credit balances in your account for that month, at a rate three and three-quarters of one percent (3.75%) per annum below the Base Rate being used to calculate interest for the period.

- 1.2 Delete the third sentence of subpart (B) of subsection 2.2 and substitute the following new sentence:

Interest on Base Rate Loans and all other Obligations shall be payable to Agent for benefit of Lenders monthly in arrears on the last day of each month, on the date of any prepayment of Loans, and at maturity, whether by acceleration or otherwise.

SECTION 2. RATIFICATION OF AGREEMENT

2.1 To induce CIT to enter into this Amendment, Borrower represents and warrants that after giving effect to this Amendment, no violation of the terms of the Agreement exist and all representations and warranties contained in the Agreement are true, correct and complete in all material respects on and as of the date hereof.

2.2 Except as expressly set forth in this Amendment, the terms, provisions and conditions of the Agreement are unchanged, and said Agreement, as amended, shall remain in full force and effect and is hereby confirmed and ratified.

SECTION 3. COUNTERPARTS; EFFECTIVENESS

This Amendment may be executed in any number of counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument. Signature pages may be detached from counterpart documents and reassembled to form duplicate executed originals. This Amendment shall become effective as of the date hereof upon the execution of the counterparts hereof by Borrower, Guarantor and CIT.

SECTION 4. GOVERNING LAW

THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 5. ACKNOWLEDGMENT AND CONSENT BY GUARANTORS

Each Guarantor hereby acknowledges that it has read this Amendment and consents to the terms thereof and further hereby confirms and agrees that, notwithstanding the effectiveness of this Amendment, the obligations of such Guarantor under its respective guaranty shall not be impaired or affected and the guaranties are, and shall continue to be, in full force and effect and are hereby confirmed and ratified in all respects.

Witness the execution hereof by the respective duly authorized officers of the undersigned as of the date first above written.

THE CIT GROUP/COMMERCIAL SERVICES,  
INC., as Agent and as Lender

By: /s/ William F. Elliott  
-----

Title: Vice President

SKECHERS U.S.A., INC.

ATTEST:

/s/ Philip G. Paccione  
-----

Secretary

By: /s/ David Weinberg  
-----

Title: CFO

GUARANTOR:

SKECHERS USA, INC. II,  
a Delaware corporation

By: /s/ David Weinberg  
-----

Title: CFO

SKECHERS BY MAIL, INC.,  
a Delaware corporation

By: /s/ David Weinberg  
-----

Title: CFO

EIGHTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Eighth Amendment to that certain Amended and Restated Loan and Security Agreement ("Amendment") is made and entered into as of September 30, 2002, by and between Skechers U.S.A., Inc. ("Borrower") and The CIT Group/Commercial Services, Inc. ("CIT"), successor by purchase to the Commercial Services Division of Heller Financial, Inc., as Agent and as Lender ("Agent"). All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Amended and Restated Loan and Security Agreement.

WHEREAS, Agent and Borrower are parties to a certain Amended and Restated Loan and Security Agreement, dated September 4, 1998 and all amendments thereto (the "Agreement"); and

WHEREAS, Borrower and Agent desire to amend the Agreement as hereinafter set forth;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. AMENDMENT

1.1 Delete the definition of "Letter of Credit Reserve" set forth in Section 11.1 of the Agreement in its entirety and substitute the following:

"Letter of Credit Reserve" means, at any time, an amount equal to (a) 50% of the aggregate amount of Letter of Credit Liability to the extent that such amount is \$1,000,000 or less, plus (b) 75% of the aggregate amount of Bank Acceptances to the extent that such amount exceeds \$1,000,000, plus (c) without duplication, the aggregate amount theretofore paid by Agent or any Lender under Lender Letters of Credit and not debited to the Loan Account pursuant to subsection 2.1(G)(2) or otherwise reimbursed by Borrower.

SECTION 2. RATIFICATION OF AGREEMENT

2.1 To induce CIT to enter into this Amendment, Borrower represents and warrants that after giving effect to this Amendment, no violation of the terms of the Agreement exist and all representations and warranties contained in the Agreement are true, correct and complete in all material respects on and as of the date hereof.

2.2 Except as expressly set forth in this Amendment, the terms, provisions and conditions of the Agreement are unchanged, and said Agreement, as amended, shall remain in full force and effect and is hereby confirmed and ratified.

SECTION 3. COUNTERPARTS

This Amendment may be executed in any number of counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument. Signature pages may be detached from counterpart documents and reassembled to form duplicate executed originals. This Amendment shall become effective as of the date hereof upon the execution of the counterparts hereof by Borrower, Guarantor and CIT.

SECTION 4. GOVERNING LAW

THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 5. ACKNOWLEDGMENT AND CONSENT BY GUARANTORS

Each Guarantor hereby acknowledges that it has read this Amendment and consents to the terms thereof and further hereby confirms and agrees that, notwithstanding the effectiveness of this Amendment, the obligations of such Guarantor under its respective guaranty shall not be impaired or affected and the guaranties are, and shall continue to be, in full force and effect and are hereby confirmed and ratified in all respects.

Witness the execution hereof by the respective duly authorized officers of the undersigned as of the date first above written.

THE CIT GROUP/COMMERCIAL SERVICES,  
INC., as Agent and as Lender

By: /s/ William F. Elliott

-----  
Title: Vice President

SKECHERS U.S.A., INC.

ATTEST:

/s/ Philip Paccione

-----  
Secretary

By: /s/ David Weinberg

-----  
Title: CFO

GUARANTOR:

SKECHERS USA, INC. II,  
a Delaware corporation

By: /s/ David Weinberg

-----  
Title: CFO

SKECHERS BY MAIL, INC.,  
a Delaware corporation

By: /s/ David Weinberg

-----  
Title: CFO

NINTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Ninth Amendment to that certain Amended and Restated Loan and Security Agreement ("Amendment") is made and entered into as of August 18, 2003, by and between Skechers U.S.A., Inc. ("Borrower") and The CIT Group/Commercial Services, Inc. ("CIT"), successor by purchase to the Commercial Services Division of Heller Financial, Inc., as Agent and as Lender ("Agent"). All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Amended and Restated Loan and Security Agreement.

WHEREAS, Agent and Borrower are parties to a certain Amended and Restated Loan and Security Agreement, dated September 4, 1998 and all amendments thereto (the "Agreement"); and

WHEREAS, Borrower and Agent desire to amend the Agreement as hereinafter set forth;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. AMENDMENT

1.1 Delete sub-section titled "Trade Names" on Schedule 4.6 of the Agreement in its entirety and substitute the following new sub-section titled "Trade Names":

Trade Names:	(As of even date herein)
	Michelle K
	Mark Nason
	310 Global Brands
	Marc Ecko Footwear
	Cross Colors (Released)
	Karl Kani (Released)
	Skechers
	Skechers Sport
	Skechers Collections

SECTION 2. RATIFICATION OF AGREEMENT

2.1 To induce CIT to enter into this Amendment, Borrower represents and warrants that after giving effect to this Amendment, no violation of the terms of the Agreement exist and all representations and warranties contained in the Agreement are true, correct and complete in all material respects on and as of the date hereof.

2.2 Except as expressly set forth in this Amendment, the terms, provisions and conditions of the Agreement are unchanged, and said Agreement, as amended, shall remain in full force and effect and is hereby confirmed and ratified.

SECTION 3. COUNTERPARTS

This Amendment may be executed in any number of counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument. Signature pages may be detached from counterpart documents and reassembled to form duplicate executed originals. This Amendment shall become effective as of the date hereof upon the execution of the counterparts hereof by Borrower, Guarantor and CIT.

SECTION 4. GOVERNING LAW

THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 5. ACKNOWLEDGMENT AND CONSENT BY GUARANTORS

Each Guarantor hereby acknowledges that it has read this Amendment and consents to the terms thereof and further hereby confirms and agrees that, notwithstanding the effectiveness of this Amendment, the obligations of such Guarantor under its respective guaranty shall not be impaired or affected and the guaranties are, and shall continue to be, in full force and effect and are hereby confirmed and ratified in all respects.

Witness the execution hereof by the respective duly authorized officers of the undersigned as of the date first above written.

THE CIT GROUP/COMMERCIAL SERVICES,  
INC., as Agent and as Lender

By: /s/ William F. Elliott

-----  
Title: Vice President

SKECHERS U.S.A., INC.

ATTEST:

/s/ Philip Paccione

-----  
Secretary

By: /s/ David Weinberg

-----  
Title: CFO

GUARANTOR:

SKECHERS USA, INC. II,  
a Delaware corporation

By: /s/ David Weinberg

-----  
Title: CFO

SKECHERS BY MAIL, INC.,  
a Delaware corporation

By: /s/ David Weinberg

-----  
Title: CFO



TENTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Tenth Amendment to that certain Amended and Restated Loan and Security Agreement ("Amendment") is made and entered into as of December 31, 2003, by and between Skechers U.S.A., Inc. ("Borrower") and The CIT Group/Commercial Services, Inc. ("CIT"), successor by purchase to the Commercial Services Division of Heller Financial, Inc., as Agent and as Lender ("Agent"). All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Amended and Restated Loan and Security Agreement.

WHEREAS, Agent and Borrower are parties to a certain Amended and Restated Loan and Security Agreement, dated September 4, 1998 and all amendments thereto (the "Agreement"); and

WHEREAS, Borrower and Agent desire to amend the Agreement as hereinafter set forth;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. AMENDMENT

- 1.1 Delete the first paragraph of subsection 2.1(B) in its entirety and substitute the following:

Revolving Loan: Each Lender, severally, agrees to lend to Borrower from time to time its Pro Rata Share of each Revolving Advance. The aggregate amount of all Revolving Loan Commitments shall not exceed at any time \$150,000,000 as reduced by subsection 2.4(B). Amounts borrowed under this subsection 2.1(B) may be repaid and reborrowed at any time prior to the earlier of (i) the termination of the Revolving Loan Commitment pursuant to subsection 8.3 or (ii) the Termination Date; provided, however that Borrower shall reduce the Revolving Loan to an amount not greater than the Cleanup Amount for at least one Business Day each consecutive twenty-one (21) day period. Except as otherwise provided herein, no Lender shall have any obligation to make a Revolving Advance to the extent such Revolving Advance would cause the Revolving Loan (after giving effect to any immediate application of the proceeds thereof) to exceed the Maximum Revolving Loan Amount.

- 1.2 Delete subsection 2.1(B)(2) in its entirety and substitute the following:

- (2) "Borrowing Base" means, as of any date of determination, an amount equal to the sum of (a) 85% of Eligible Accounts plus (b) the lesser of (i) \$75,000,000 and (ii) 60% of Eligible Inventory (excluding Eligible Retail Inventory) ; and (c) less in each case such reserves as Agent in its reasonable discretion may elect to establish.

- 1.3 Add the following sentence to the end of Section 6. Financial Covenants:

Financial Covenants contained in the Financial Covenant Rider shall not be reviewed unless the loan exceeds sixty percent (60%) of all Eligible Accounts.

- 1.4 Delete subsection (A) of the Financial Covenants Rider in its entirety and substitute the following:

- (A) Tangible Net Worth. On and after January 1, 2004, Borrower shall

maintain Tangible Net Worth of at least \$250,000,000.00 as at the end of each Fiscal Month.

1.5 Delete subsection (B) of the Financial Covenants Rider in its entirety and substitute the following:

(B) Working Capital. On and after January 1, 2004, Borrower shall maintain Working Capital of

at least \$200,000,000.00 as at the end of each Fiscal Month.

1.6 Delete subsection 2.5 in its entirety and substitute the following new subsection:

2.5 Term of this Agreement. This Agreement shall be effective until December 31, 2005 (the "Original Term") and shall automatically renew from year to year thereafter (each such year a "Renewal Term") unless terminated by (a) Borrower giving to Agent or (b) any Lender giving to Borrower and Agent not less than 60 days prior written notice of its intention to terminate at the end of the Original Term or at the end of any Renewal Term (the "Termination Date"). The Commitments shall terminate (unless earlier terminated) upon the earlier of (i) the occurrence of an event specified in subsection 8.3 or (ii) the Termination Date. Upon termination in accordance with subsection 8.3 or on the Termination Date, all Obligations shall become immediately due and payable without notice or demand. Notwithstanding any termination, until all Obligations have been fully paid and satisfied, Agent, on behalf of Lenders, shall be entitled to retain security interests in and liens upon all Collateral, and even after payment of all Obligations hereunder, Borrower's obligation to indemnify Agent and each Lender in accordance with the terms hereof shall continue.

#### SECTION 2. RATIFICATION OF AGREEMENT

2.1 To induce CIT to enter into this Amendment, Borrower represents and warrants that after giving effect to this Amendment, no violation of the terms of the Agreement exist and all representations and warranties contained in the Agreement are true, correct and complete in all material respects on and as of the date hereof.

2.2 Except as expressly set forth in this Amendment, the terms, provisions and conditions of the Agreement are unchanged, and said Agreement, as amended, shall remain in full force and effect and is hereby confirmed and ratified.

#### SECTION 3. COUNTERPARTS

This Amendment may be executed in any number of counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument. Signature pages may be detached from counterpart documents and reassembled to form duplicate executed originals. This Amendment shall become effective as of the date hereof upon the execution of the counterparts hereof by Borrower, Guarantor and CIT.

#### SECTION 4. GOVERNING LAW

THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA.

#### SECTION 5. ACKNOWLEDGMENT AND CONSENT BY GUARANTORS

Each Guarantor hereby acknowledges that it has read this Amendment and consents to the terms thereof and further hereby confirms and agrees that, notwithstanding the effectiveness of this Amendment, the obligations of such Guarantor under its respective guaranty shall not be impaired or affected and the guaranties are, and shall continue to be, in full force and effect and are hereby confirmed and ratified in all respects.

Witness the execution hereof by the respective duly authorized officers of the undersigned as of

2

the date first above written.

THE CIT GROUP/COMMERCIAL SERVICES, INC.,  
as Agent and as Lender

By: /s/ William F. Elliott  
-----  
Title: Vice President  
-----

SKECHERS U.S.A., INC.

ATTEST:

/s/Philip G. Paccione  
-----  
Secretary  
-----

By: /s/ David Weinberg  
-----  
Title: EVP  
-----

GUARANTOR:

SKECHERS USA, INC. II,  
a Delaware corporation

By: /s/ David Weinberg  
-----  
Title: EVP  
-----

SKECHERS BY MAIL, INC.,  
a Delaware corporation

By: /s/ David Weinberg  
-----  
Title: EVP  
-----

3

ADDENDUM #2  
TO  
STANDARD INDUSTRIAL/COMMERCIAL  
MULTI-TENANT LEASE - MODIFIED NET  
BY AND BETWEEN RICHARD AND DONNA PIAZZA,  
TRUSTEES OF THE PIAZZA FAMILY TRUST ("LESSOR")  
AND SKECHERS U.S.A., INC. ("LESSEE")

THIS ADDENDUM shall modify, delete from and add and replace by substitution to the STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE - MODIFIED NET, dated June 12, 1998, for the Premises commonly known as 1112 Manhattan Avenue, Manhattan Beach, California ("Lease"). Where any Article, Paragraph, Subparagraph or Clause of the Lease thereof is modified or deleted by this Addendum, the unaltered provisions of that article, Paragraph, Subparagraph or Clause shall remain in effect. If and to the extent that this Addendum is inconsistent with the Lease, this Addendum shall control.

62. ADDITIONAL SPACE. The additional patio space of approximately 297 square feet shall be rented at a rate of \$3.00 per square foot/per month for a total \$891.00 per month, and which shall be added to and become a part of the Premises and effective as of March 1, 2002.
63. OPTION. Notwithstanding anything contained in the Lease to the contrary, Lessee shall have an additional one (1) time option to extend the term of the Lease for an additional five (5) years (i.e., March 1, 2007 to February 28, 2012) pursuant and subject to the terms, covenants and conditions of the Lease, except that the Base Rent shall be determined pursuant to Paragraph 50. Lessee shall provide written notice to Lessor of Lessee's intention to extend the Lease pursuant to this Option prior to the expiration of the Original Term at least one hundred eighty (180) days but not more than two hundred seventy (270) days prior to such expiration. All other provisions related to the payment of rent under the terms of the Lease shall remain in full force and effect.
64. AUTHORIZATION FOR CONSTRUCTION. Lessor authorizes Lessee to commence construction of the Tenant Improvements to the Premises in line with and subject to the restrictions contained hereinafter. In conjunction with this authorization, Lessee acknowledges its sole responsibility for such construction and hereby acknowledges Lessor's recordation of a Notice of NonResponsibility by Owner in reference thereto.
65. CONSTRUCTION DURING LEASE. Lessee agrees not to make any changes that will compromise or negate the Premises from its original purpose as a restaurant and Lessee further agrees that during the Original Term and any Option Period thereafter, Lessee shall not modify, improve or disturb the Premises such that the applicable provision of the site Operational Restrictions provided in Condition 7 of the City of Manhattan Beach's Planning Commission Resolution regarding the Master Use Permit ("MUP") approved November 9, 1994 per Resolution PC-94 would be

1 of 2

Piazza/GM  
Addendum/Lease(1108)

violated, a copy of which can be provided upon request ("City Resolution"). Lessee further agrees to pay any fees or costs in order to maintain temporary Conditional Use Permit ("CUP"), issued and approved pursuant to Condition 31 of the aforementioned City Resolution, for office space on a yearly basis, through the remainder of Lease, including all Option Terms.

66. REVIEW OF PLANS. In order to ensure compliance with Paragraph 60 and in addition to any provisions related hereto in the Lease, Lessee agrees to provide Lessor with a copy of any plans, drawings, blueprints or other construction documents which show the proposed improvements to the Premises ("Plans") Lessee shall have the right to review such Plans and reasonably object to any design or specification which would conflict with or otherwise disturb the restrictions of City Resolution.
67. PROPERTY TAX. Notwithstanding anything in the Lease to the contrary, Lessee agrees to pay any increase in property tax due to improvements made by Lessee.
68. ACKNOWLEDGMENT OF THE PARTIES. Lessor and lessee acknowledge that parties have entered into separate Commercial Lease Agreements for those certain portions of the Building commonly known as 1110 Manhattan Avenue, Manhattan Beach, California ("Upstairs Space") and 1108 Manhattan Avenue, Manhattan Beach, California. Said Leases have corresponding options to extend the original terms of the Leases through 2012.

IN WITNESS WHEREOF, the parties have executed this Sublease as of the date first above written.

LESSOR:

PIAZZA FAMILY TRUST  
DATED MARCH 1, 1993

/s/ RICHARD J. PIAZZA  
-----

Richard J. Piazza, trustee

/s/ DONNA J. PIAZZA  
-----

Donna J. Piazza, trustee

LESSEE:

SKECHERS U.S.A., INC.,  
A DELAWARE CORPORATION

/s/ PETER F. MOW  
-----

Peter F. Mow  
Vice President of Real Estate and  
Construction

LEASE

THIS LEASE, dated this 10th day of SEPTEMBER, 1998 by and between DOLORES L. MC NABB (hereinafter "Landlord"), and SKECHERS USA, INC. a California corporation thereinafter "Tenant").

WITNESSETH:

ARTICLE 1. PREMISES LEASED.

In consideration of the rent and other charges herein specified to be paid and the covenants and conditions to be observed and performed by Tenant. Landlord does hereby lease to Tenant and Tenant does hereby lease from Landlord those premises hereinafter referred to as "said premises" within the office building commonly known and designated as OFFICES #3, 4, and 5, second floor, north building 904 Manhattan Avenue, Manhattan Beach, CA

ARTICLE 2. TERM OF LEASE AND DELIVERY OF PREMISES.

The term of this Lease shall be for 5 years 9 1/2 months commencing on the 15th day of September, 1998, and ending on the 30 day of June, 2004. OPTIONS TO EXTEND - See Paragraph A on Exhibit "A" attached hereto.

If Landlord, for any reason whatsoever, cannot deliver possession of the said premises to Tenant within \_\_\_\_\_ days after the commencement of the term hereof, this Lease shall not be void or voidable, nor shall Landlord be liable to Tenant for any loss or damage resulting therefrom, but in that event all rent shall be abated during the period between the commencement of the said term and the time when Landlord delivers possession.

ARTICLE 3. RENT

See Exhibit "A"

ARTICLE 4. USE.

Said premises shall be occupied and used by Tenant solely for the purposes of conducting therein the business stated in Exhibit "A". In addition thereto:

- A. No use shall be made or permitted of said premises or any part thereof, nor acts done which shall constitute a nuisance or unreasonable annoyance to other tenants in the office park complex nor which shall violate, make inoperative or increase the existing rate of any insurance policy held by or for the benefit of Landlord.
- B. Tenant shall at all times comply with all governmental rules, regulations, ordinances, statute and is now in force or which may hereafter be enforced pertaining to said premises and to Tenant's use thereof, and a finding of guilty by a competent court for any violation thereof shall be conclusively deemed a default under this paragraph.

ARTICLE 5. LANDLORD SERVICES.

Landlord will provide services during reasonable hours of generally recognized business days to be determined by Landlord, and subject to the rules and regulations as set forth in Exhibit "A", as follows:

- A. Heat and air-conditioning during the customary hours as stipulated in the Rules and Regulations.

- B. Electric current for ordinary lighting requirements and for ordinary business appliances such as typewriters and adding machines. Landlord shall not be required to furnish electrical power to operate electrical motors of larger than fractional horsepower. Landlord shall make additional charges for service if Tenant has greater than normal requirements for such services.
- C. Tenant shall pay for all water, gas, electricity, light, power and other utilities supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Tenant, Tenant shall pay a reasonable proportion to be determined by Landlord of all charges jointly metered with other premises. Replacement of fluorescent tubes in the standard lighting fixtures installed in the premises by Landlord shall be provided as required and billed to Tenant.

Landlord, however, shall not be liable for failure to furnish any of the foregoing where such failure is caused by conditions beyond the control of Landlord or by accidents, repairs or strikes; nor shall such failure constitute an eviction; nor shall Landlord be liable under any circumstances except where caused by Landlord's negligence, for loss or damage to property however occurring through or in connection with or incidental to the furnishing of any of the foregoing.

#### ARTICLE 6. PARKING.

See Exhibit "A"

Landlord agrees at its own expense to construct and maintain, or cause to be constructed and maintained, an automobile parking area and to maintain and operate, or cause to be maintained and operated, said automobile parking area during the term of this Lease for the benefit and use of Tenant, its employees, customers and patrons and for other tenants and occupants of the office complex. Wherever the words "automobile parking area" are used in this Lease, it is intended that the same shall include the automobile parking stalls, driveways, entrances and exits and sidewalks, pedestrian passageways in conjunction therewith and other areas designated for parking. Landlord shall keep said automobile parking area in a neat, clean and orderly condition, landscaped, and shall repair any damage to the facilities thereof. Nothing contained herein shall be deemed to create liability upon Landlord for any damage to motor vehicles of customers or employees or from loss of property from within such motor vehicles, unless caused by the negligence of Landlord, its agents, servants and employees. Landlord shall also have the right to establish, and from time to time change, alter and amend, and to enforce against all users of said automobile parking area such reasonable rules and regulations (tenant, its employees, customers and patrons from parking within specific portions therefrom) as may be deemed necessary and advisable for the proper and efficient operation and maintenance of said automobile parking area. The rules and regulations herein provided shall include, without limitation, the hours during which the automobile parking area shall be open for use.

Landlord shall at all times during the term of this Lease have the sole and exclusive control of the automobile parking area, and may at any time and from time to time during the term hereof exclude and restrain any person from use or occupancy thereof; excepting, however, bona fide customers, patrons and service-suppliers of Tenant and other tenants of Landlord who make use of said area in accordance with any rules and regulations established by Landlord from time to time with respect thereto. The rights of Tenant referred to in this Article shall at all times be subject to the rights of Landlord and the other tenants of Landlord, to use the same in common with Tenant, and it shall be the duty of Tenant to keep all of said area free and clear of any obstruction created or permitted by Tenant or resulting from Tenant's operations and to permit the use of any of said area only for normal parking and ingress and

egress by said customers, patrons and service-suppliers to and from the office park complex.

Tenant shall assume sole responsibility for satisfying the requirements of the Environmental Protection Agency, or similar agencies, with respect to their proportionate share of the parking areas.

#### ARTICLE 7. ALTERATIONS AND REPAIRS.

Tenant shall not make or suffer to be made any alterations, additions or improvements to or of said premises or any part thereof without the written consent of Landlord first had and obtained and any alterations, additions or improvements to or of said premises, except movable furniture and trade fixtures, shall at once become a part of the realty and belong to Landlord. In the event Landlord consents to the making of any alteration, additions or improvements to said premises by Tenant, the same shall be made by Tenant at Tenant's sole cost and expense and any contractor or person selected by Tenant to make the same must first be approved of in writing by Landlord. Upon the expiration or sooner termination of the term, Tenant shall, upon demand by Landlord, at Tenant's sole cost and expense, forthwith and with all due diligence remove any alterations, additions or improvements made by Tenant, designated by Landlord to be removed, and Tenant shall forthwith and with all due diligence at its sole cost and expense, repair any damage caused by such removal.

By entry hereunder, Tenant accepts the premises as being in good, sanitary order, condition and repair Tenant shall at Tenant's sole cost and expense keep said premises and every part thereof including glass in good condition and repair, damage thereto by fire, earthquake, act of God or the elements excepted, Tenant hereby waiving all rights to make repairs at the expense of Landlord as provided by any law, statute or ordinance now or hereafter in effect. Tenant shall, upon the expiration or sooner termination of the term hereof, surrender said premises to Landlord in the same condition as when received, ordinary wear and tear and damage by fire, earthquake, act of God or the elements excepted. It is specifically understood and agreed that Landlord has no obligation and has made no promises to alter, remodel, improve, repair, decorate or paint said premises or any part thereof and that no representations respecting the conditions of said premises or the building of which said premises are a part have been made by Landlord to Tenant except as specifically herein set forth. See Exhibit "A".

#### ARTICLE 8. CHANGES OR ALTERATIONS BY LANDLORD

Landlord reserves the right at any time and from time to time without the same constituting an actual or constructive eviction and without incurring any liability to Tenant therefore or otherwise affecting Tenant's obligations under this Lease, to make such changes, alterations, additions, improvements, repairs or replacements in or to the office complex (including said premises if required so to do by any law or regulation) and the fixtures and equipment thereof, as well as in or to the plenum area (air space above the ceiling), and stairways thereof, as Landlord may deem necessary or desirable, and to change the arrangement or location of entrances or passageways, doors and corridors, provided, however, that there be no unreasonable obstruction of the right of access to, or unreasonable interference with the use and enjoyment of said premises by Tenant.

#### ARTICLE 9. LANDLORD'S NONLIABILITY

Landlord shall no be liable for any loss or damage to the goods, wares, merchandise and other property of Tenant in, upon or about said premises or for any injury to the person (including death) of Tenant or its employees, agents, subtenants or invitees or other persons, caused by any use thereof, or arising from any accident or fire or

other casualty thereon or from any other cause whatsoever, unless caused by Landlord's negligence, nor shall Landlord be liable for any such loss, damage or



injury occurring anywhere in the office park complex and caused by the act or neglect of Tenant, its agents or employees; and Tenant hereby waives on its behalf all claims against Landlord for any such loss or injury and hereby agrees to indemnify and save Landlord harmless from all liability for any such loss, damage or injury and in the event action is brought against Landlord on account of such loss, damage or liability and Landlord elects not to accept Tenant's proffered defense of such action, Tenant shall nevertheless pay the cost of Landlord's reasonable attorney's fees incurred in connection therewith.

#### ARTICLE 10. INSURANCE.

All insurance provided for herein shall name Landlord as an additional insured as its interest may appear. Policies will provide a 30-day written notice to Landlord in the event of cancellation by Tenant's insurance company.

Tenant agrees to maintain statutory Workmen's Compensation Insurance and comprehensive public liability insurance with the following minimum limits: combined single limit coverage of not less than \$1,000,000 with respect to personal injury death or property damage resulting from any one occurrence: the minimum limits shall not, however limit the liability of Tenant hereunder.

It shall be Tenant's responsibility to maintain full "ALL RISK" insurance on its property and rental value and glass insurance on said premises.

It shall be Landlord's responsibility to insure said premises against fire and extended coverage damage.

So long as their respective insurers so permit, Tenant and Landlord hereby mutually waive their respective rights of recovery against each other for any loss insured by fire, extended coverage and other property insurance policies existing for the benefit of the respective party. Each party shall obtain any special endorsements, if required by their insurer, to evidence compliance with the aforementioned waiver.

Certificates of insurance stating the above will be provided to Landlord by Tenant.

#### ARTICLE 11. ASSIGNMENT AND SUBLETTING.

- A. Tenant shall not transfer or assign this Lease, or any right or interest hereunder, nor sublet said premises or any part thereof, without the prior written consent (which consent shall not be unreasonable withheld) and approval of Landlord provided, however, that such consent shall not be unreasonably withheld so long as (i) the proposed assignee or sublessee is as financially and morally responsible as Tenant and (ii) evidence satisfactory to Landlord is offered to show that the proposed assignee or sublessee is likely to conduct on said premises a business of a quality substantially equal to that conducted by Tenant. No transfer or assignment, whether voluntary or involuntary, by operation of law, under legal process or proceedings, by receivership, in bankruptcy, or otherwise, and no subletting shall be valid or effective without such prior written consent and approval. Should Tenant attempt to make or suffer to be made any such transfer, assignment or subletting, except as aforesaid, or should any of Tenant's rights under this Lease be sold or otherwise transferred by or under court order or legal process or otherwise or should Tenant be adjudged insolvent or bankrupt, then and in any of the foregoing events Landlord may, at its option, terminate this Lease forthwith by written notice thereof to Tenant. Should Landlord consent to any such transfer, assignment or subletting, such consent shall not constitute a waiver of any of the restrictions of this Article and the same shall apply to each successive transfer, assignment or subletting hereunder, if any.
- B. If Tenant hereunder is a corporation, an unincorporated

association, or a partnership, the transfer, assignment or hypothecation of any stock or interest in such corporation, association or partnership in the aggregate in excess of Forty-nine percent (49%) shall be deemed an assignment within the meaning and provisions of this Article; provided, however, a transfer or assignment of any such stock or interest by a shareholder or member to his spouse, children or grandchildren is excepted from the foregoing provision.

#### ARTICLE 12. RIGHT OF ENTRY.

Landlord reserves and shall at any time and at all times have the right to enter upon said premises to inspect the same, and perform any service to be provided by Landlord to Tenant hereunder, to submit said premises to prospective purchasers or tenants, to post notices of nonresponsibility, and to alter, improve or repair said premises and any portion of the building of which said premises are a part, without abatement of rent, and may for that purpose erect scaffolding and other necessary structures where reasonably required by the character of the work to be performed, always providing the entrance to said premises shall not be blocked thereby, and further providing that the business of Tenant shall not be interfered with unreasonably. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of said premises, and any other loss occasioned thereby. For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in, upon and about said premises, excluding Tenant's vaults and safes, and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency, in order to obtain entry to said premises, and any entry to the premises obtained by landlord by any of said means, or otherwise, shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of said premises, or an eviction of Tenant from said premises or any portion thereof.

#### ARTICLE 13. BANKRUPTCY-INSOLVENCY.

Tenant agrees that in the event all or substantially all of Tenant's assets are placed in the hands of a receiver or trustee, and such receivership or trusteeship continues for a period of 30 days, or should Tenant make an assignment for the benefit of creditors or be adjudicated a bankrupt, or should Tenant institute any proceedings under the Bankruptcy Act or under any amendment thereof which may hereafter be enacted, or under any other act relating to the subject of bankruptcy wherein Tenant seeks to be adjudicated a bankrupt, or to be discharged of its debts, or to effect a plan of liquidation, composition or reorganization, or should any involuntary proceeding be filed against the Tenant under any such bankruptcy laws and Tenant consents thereto or acquiesces therein by pleading or default, then this Lease or any interest in and to said premises shall not become an asset in any of such proceedings and, in any such event and in addition to any and all rights or remedies of Landlord hereunder, or by law provided, it shall be lawful for Landlord to declare the Term hereof ended and to re-enter said premises and take possession thereof and remove all persons therefrom, Tenant shall have no further claim thereon or hereunder.

#### ARTICLE 14. LIENS.

Tenant shall not permit to be enforced against said premises, or any part thereof, any mechanics', material-men's, contractors' or other liens arising from, or any claims for damages growing out of, any work or repair or alteration as herein authorized or otherwise arising (except from the actions of Landlord), and Tenant shall pay or cause to be paid all of said liens and claims before any action is brought to enforce the same against Landlord or said premises: and Tenant agrees to indemnify and hold Landlord and said premises free and harmless from all liability for any and all such liens and claims and all costs and expenses in connection therewith. Tenant shall give Landlord no less than 20 days prior notice in writing commencing construction of any kind on the premises so that Landlord may post notices of nonresponsibility.

ARTICLE 15. LANDLORD PAYING CLAIMS.

Should Tenant fail to pay and discharge, when due and payable, any tax or assessment, or any premium or other charge in connection with any insurance policy or policies which Tenant is obligated to pay, or any lien or claim for labor or material employed or used in, or any claim for damages arising out of the repair, alterations, maintenance and use of said premises, as provided in this Lease, after 10 days written notice from Landlord, the Landlord may, at its option, and without waiving or releasing Tenant from any of Tenant's obligations hereunder, pay any such tax, assessment, lien, claim, insurance premium or charge, or settle or discharge any action therefore or satisfy any judgment thereon. All costs, expenses and other sums, incurred or paid by Landlord in connection therewith, together with interest at the rate of 10% per annum on such costs, expenses and sums from the date incurred or paid by Landlord, shall be deemed to be additional rent hereunder and shall be paid by Tenant with and at the same time as the next installment of rent hereunder, and any default therein shall constitute a breach of the covenants and conditions of this Lease.

ARTICLE 16. DESTRUCTION OF PREMISES.

A. In the event the building of which said premises are a part is damaged by fire, or perils covered by insurance, the Landlord shall:

1. In the event of total destruction, within a period of 90 days thereafter, commence repair, reconstruction and restoration of said building and prosecute the same diligently to completion, in which event this Lease shall continue in full force and effect; or within said 90 day period elect not to so repair, reconstruct or restore said building, in which event this Lease shall cease and terminate. In either event, Landlord shall give the Tenant written notice of its intention within said 90 day period. In the event Landlord elects not to restore said building, this Lease shall be deemed to have terminated as of the date of such total destruction.

2. In the event of a partial destruction of the building to an extent not exceeding 25% of the full insurable value thereof and if the damage thereto is such that the building may be repaired, reconstructed or restored within a period of 90 days from the date of the happening of such casualty and Landlord will receive insurance proceeds sufficient to cover the costs of such repairs, Landlord shall commence and proceed diligently with the work of repair, reconstruction and restoration and the Lease shall continue in full force and effect; or if such work or repair, reconstruction and restoration is such as to require a period longer than 90 days or exceed 25% of the full insurable value thereof, or if said insurance proceeds will not be sufficient to cover the cost of such repairs, Landlord may either elect to so repair, reconstruct and restore and the Lease shall continue in full force and effect, or Landlord may elect not to repair, reconstruct or restore and the Lease shall in such event terminate. Under any of the conditions of this subparagraph, Landlord shall give written notice to Tenant of its intention within the period of 90 days. In the event Landlord elects not to restore said building, this Lease shall be deemed to have terminated as of the date of such partial destruction.

B. Upon any termination of this Lease under any of the provisions of this Article, the parties shall be released thereby without further obligation to the other coincident with the surrender

of possession of the premises to Landlord except for items which have theretofore accrued and are then unpaid.

- C. In the event of repair, reconstruction and restoration as herein provided, the rental provided to be paid under this Lease shall be abated proportionately in the ratio which the Tenant's use of said premises is impaired during the period of such repair, reconstruction or restoration. Tenant shall not be entitled to any compensation or damages for loss in the use of the whole or any part of said premises and/or any inconvenience or annoyance occasioned by any such damage, repair, reconstruction or restoration.
- D. Tenant shall not be released from any of its obligations under this Lease except to the extent and upon the conditions expressly stated in this Article. Notwithstanding anything to the contrary contained in this Article, should Landlord be delayed or prevented from repairing or restoring said damaged premises within on (1) year after the occurrence of such damage or destruction by reason of acts of God, war, governmental restrictions, inability to procure the necessary labor or materials, or other cause beyond the control of Landlord, Landlord shall be relieved of its obligation to make such repairs or restoration and Tenant shall be released from its obligations under this Lease as of the end of said one (1) year period.
- E. In the event that damage is due to any other cause than set forth in Paragraph A above, Landlord may elect to terminate this Lease.
- F. It is understood that if Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall be obligated to make repairs or restoration only of those portions of said building and said premises which were originally provided at Landlord's expense; and the repair and restoration of items not provided at Landlord's expense shall be the obligation of Tenant.

ARTICLE 17. LATE PAYMENTS.

See Exhibit "A"

ARTICLE 18. REMEDIES.

Should Tenant at any time be in default hereunder with respect to any rental payments or other charges payable by Tenant hereunder, and should such default continue for a period of 10 days after written notice from Landlord, or should Tenant be in default in performance of any other of its promises, covenants or agreements herein contained (other than any breach under the Article entitled "Assignment and Subletting" for which immediate notice of termination may be given) and should such default continue for 30 days after written notice thereof from Landlord to Tenant specifying the particulars of such default, or should Tenant vacate or abandon the premises, this Lease shall remain in full force and effect, provided, however, that in any of such events and in addition to any or all other rights or remedies of Landlord hereunder or by the law provided, it shall be, at the option of Landlord:

- A. The right of Landlord to declare the term hereof ended and to re-enter said premises and take possession thereof and remove all persons therefrom, and Tenant shall have no further claim thereon or thereunder; or
- B. The right of Landlord, even though it may have brought an action to collect rent and other charges without terminating this Lease, to thereafter elect to terminate this Lease and

all of the rights of Tenant in or to said premises; or

- C. The right of Landlord, without terminating this Lease, to begin an action or actions to collect rent and other charges hereunder which are from time to time past due and unpaid; it being understood that the bringing of such action or actions shall not terminate this Lease unless notice of termination is given.

Should Landlord elect to terminate this Lease, Landlord shall be entitled to recover from the Tenant as damages: (i) 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 for the same period that Tenant proves could be reasonably avoided (ii) the cost of recovering said premises to the condition required in the Article entitled "Removal" and (iii) such other amounts as are provided for in Section 1951.2 of the California Civil Code

If Landlord shall elect to re-enter said premises, Landlord shall not be liable for damages by reason of such re-entry.

Notwithstanding any other provision of this Article, Landlord agrees that if the default complained of, other than for the payment of monies, is of such a nature that the same cannot be cured within the 30 day period specified above, then such default shall be deemed to be cured if the Tenant within such a period shall have commenced the curing thereof and shall continue thereafter withal the diligence to cause such curing and does so complete the same with the use of such diligence.

All rights, options and remedies of Landlord contained in the Lease shall be construed and held to be cumulative, and no one of them shall be exclusive of the other, and Landlord shall have the right to pursue anyone or all of such remedies or any other remedy or relief which may be provided by law, whether or not stated in this Lease. No waiver or any default of Tenant hereunder shall be implied from any acceptance by Landlord or any rent

or other payments due hereunder or any omission by Landlord to take any action or account of such default if such default persists or is repeated, and no express waiver shall affect default other than as specified in said waiver. The consent or approval by Landlord to or of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent or approval to or any of subsequent similar acts by Tenant.

#### ARTICLE 19. SECURITY DEPOSIT.

Tenant has deposited with Landlord the sum in the attached Exhibit "A" as security for the full performance of the provisions of this Lease. If Tenant defaults in any particular, Landlord may use or retain the whole or any part of the security in lieu of any sum due Landlord including repair of damages or cleaning of the premises upon termination or to defray any expense or damages reasonably incurred by reason of the default, and Tenant shall on demand pay to Landlord a like sum as additional security. If Tenant is not in default at the termination of this Lease, Landlord shall return the deposit to Tenant and may do this by either paying this sum to Tenant or crediting it against the last payment(s) of rent. Landlord's obligation respecting the deposit is that of a debtor, not a trustee, the fund may be commingled to dissipate, or both and not interest shall accrue thereon,

#### ARTICLE 20. ATTORNEY'S FEES.

In the event that any action shall be instituted by either of the parties hereto for the enforcement of any of its rights or remedies in and under this Lease, the party in whose favor judgment shall be rendered shall be entitled to recover from the other party all costs incurred by said prevailing party in said action, including reasonable attorney's fees to be fixed by the court therein.

ARTICLE 21. REMOVAL

- A. Personal Property. Upon the expiration of the Term of this Lease, or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the said premises to Landlord in the same condition as upon delivery of possession to Tennant hereunder, reasonable wear and tar and damage by fire, acts of God, the elements and unavoidable casualty excepted. Before surrendering possession of said premises as aforesaid, Tenant shall, without expense to Landlord, remove or cause to be removed from said premises all signs, furnishings, equipment, trade fixtures, merchandise and other personal property placed therein. And all rubbish and debris, and Tenant shall repair all damage to said premises resulting g from such removal. If requested by Landlord, Tenant shall execute, acknowledge and deliver to Landlord an instrument in writing releasing and quitclaiming to Landlord all tights, title an interest in Tenant in and to said premises by reason of this lease or otherwise. If Tenant fails to remove any of its sins, furnishings, equipment, trade fixtures, merchandise, or other personal property within 10 days after the expiration or termination of this Lease, then Landlord may, at its sole option (1) treat Tenant as a holdover, in which even the provision of the Article of this Lease regarding Holding Over shall apply: (ii) deem any and all of such items abandoned and the sole property of Landlord, or (iii) remove any or all of such items and dispose of same to any manner or store same for Tenant, in which event the expense of such disposition or storage shall be borne by Tenant and shall be immediately due and payable.
- B. Fixtures, Equipment and Improvements. All fixtures, equipment improvements and appurtenances attached to or built into said premises prior to or during the Term, whether by Landlord at its expense or a the expense of Tenant or both, shall be and remain part of said premises and shall not be removed b Tenant at the end of the Term unless otherwise expressly provided for in this Lease. Such fixtures, equipment, improvements and appurtenances shall include by not be limited to" all floor coverings, drapes, paneling, molding, doors vaults (exclusive of vault doors), plumbing systems, electrical systems, lighting systems, cooling systems, ventilation systems, sprinkling systems, silencing equipment, communication systems, all fixtures and outlets for the systems mentioned above and for all telephone, radio, telegraph and television purposes, and any special flooring or ceiling installations.

ARTICLE 22. PAYMENTS AND NOTICES.

- A. Payments of Rent: The rent specified herein shall be paid to Landlord or to such other person or persons or at such other address or addresses as Landlord hereafter may designate by written notice to Tenant. Payment of rent to any person or persons so designated by Landlord shall exonerate Tenant from all responsibility therefore or for the proper distribution thereof.
- B. Notices. Any notice or demands which may or must be given by either party to the other hereunder shall be deemed to have been duly given when made by personal service or in writing and deposited for mailing by United States mail, postage prepaid, addressed as following or to such other place as the partied may hereafter in writing direct.

To Landlord: At the address set forth on the signature page of this Lease

To Tenant: At the address set forth on the signature page  
of this Lease

ARTICLE 23. EMINENT DOMAIN

- A. Definition of Terms. The terms "total taking" as used in this Article means the taking of the entire premises under the power of eminent domain or a taking of so much of said premises as to prevent or substantially impair the conduct of Tenant's business therein. The term "partial taking" means the taking of a portion only of said premises which does not constitute a total taking as above defined
- B. Total Taking. If during the term here of, there shall be a total taking by public authority under the power of eminent domain, then the leasehold estate of Tenant in and to said premises shall cease and terminate as of the dated actual physical possession thereof shall be so taken.
- C. Partial Taking. If during said term there shall be a partial taking of said premises, this Lease shall terminate as to the portion of said premises taken upon the date upon which actual possession of said premises is taken pursuant to said eminent domain proceedings, but said Lease shall continue in force and effect as to the remainder of said premises. The minimum guaranteed rental payable by Tenant for the balance of said term shall be abated in the ration that the square footage of floor area of said premises taken bears to the total floor area of said premises at the time of such taking.
- D. Taking of Parking Area. In the event there shall be a taking of the parking area such that Landlord can no longer comply with applicable municipal parking ordinances or similar regulations of other public agencies Landlord may substitute therefore reasonably equivalent parking in a location reasonably close to said premises: provided that if Landlord fails to make such substitution within a reasonable time following such taking. Tenant may, at its option, terminate this Lease by notice to Landlord. If this Lease is not so terminated by Tenant, there shall be no reduction, change or abatement of any rent or other charge payable by Tenant hereunder and this Lease shall continue in full force and effect.
- E. Allocation of Award. All compensation and damages awarded for the taking of said premises, or any portion or portions thereof, shall, except as otherwise herein provided, belong to and be the sole property of Landlord, and Tenant shall not have any claim or be entitled to any award for the diminution in value of its leasehold hereunder or for the value of any unexpired term of this Lease": provided, however, Tenant shall be entitled to any award that may be made for the taking of or injury to or on account of any cost or loss Tenant may sustain in the removal of Tenant's merchandise, fixtures, equipment and furnishings.
- F. Effect of Termination. If this Lease is terminated, in whole or in part pursuant, to any of the provisions of this Article, all rentals and other charges payable by Tenant to Landlord hereunder and attributable to the premises taken, shall be paid up to the date upon which actual physical possession shall be taken by the condemner and the parties shall thereupon be released form all further liability in relation thereto.
- G. Voluntary Sales. A voluntary sale by Landlord to any

public body or agency having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed to be a taking under the power of eminent domain for the purpose of this Article.

ARTICLE 24. HOLDING OVER.

This Lease shall terminate and become null and void without further notice upon the expiration of the Term herein specified, and any holding over by Tenant after such expiration shall not constitute a renewal thereof, to give Tenant any rights under this Lease, except as otherwise herein provided, it being understood and agreed that this Lease cannot be renewed, extended or in any manner modified except in writing signed by both parties hereto: provided, however, that nothing in the Article shall be construed to alter or impair the provisions of Article 231 hereof. If Tenant shall hold over for any period after the expiration of said Term, Landlord may, at it's option, exercise by written notice to Tenant, treat Tenant as a tenant from month-to-month commencing on the 1st day following the expiration of this Lease and subject to the terms and condition herein contained except that the Basic Rental portion of the monthly rental, which shall b payable in advance shall be 150\$% of said Basic Rental applicable to the date of expiration. If Tenant ails to surrender the premises upon the expiration of the Lease despite demand to do so by Landlord, Tenant shall indemnify and hold Landlord harmless from all loss or liability including without limitation, any claims made by any succeeding Tenant founded on or resulting from such failure to surrender,

ARTICLE 25. SUBORDINATION AND STATEMENT OF TENANT.

The rights of Tenant under this Lease are and shall be subject to and subordinate to all present and future ground or underlying Leases and amendments thereto, the declaration and recording of covenants, conditions and restrictions relating to the office complex and operation thereof, and the lien of any mortgage and/or any deed or trust or other encumbrance which now exists or may hereafter affect said premises together with all renewals, modifications, consolidations, replacements or extensions thereof: Tenant covenants and agree that it will execute without further consideration any and all instruments desired by Landlord subordinating in the manner requested by Landlord this Lease; provided that any Lienor or encumbrancor relying on such subordination or such additional

agreements will covenant with Tenant that this Lease shall remain in full force and effect, and tenant shall not be disturbed in the event of sale or foreclosure so long as Tenant is not in default hereunder. Tenant agrees to attorney to the successor in interest of landlord following any transfer of such interest either voluntarily or by operation of law and to recognize such successor as Landlord under this Lease. However, if Landlord so elects, this Lease shall be deemed prior to lien to any mortgage, deed of trust or other encumbrance upon or including the premises regardless of date of recording and Tenant will execute a statement in writing to such effect at Landlord's request. Landlord is hereby irrevocably appointed and authorized as agent and attorney-in-fact of Tenant to execute all subordination instruments in the event Tenant fails to execute said instruments within five (5) days after notice form Landlord demanding the execution thereof.

Statement of Tenant. Tenant shall, at any time and from time to time, upon not less that 10 (10) days prior written notice by Landlord, execute, acknowledge, and deliver to Landlord a statement in writing certifying that this lease is unmodified and in full force and effect (or, if there has been any modification thereof, that the same is in full force and effect as modified and stating the modification or modifications) and that Landlord is not in default, except as specified in such statement, in regard to any of its covenants or obligations under this Lease, and further setting forth the dated to which all sums payable as rental hereunder have been paid in advance, if any, and such other statements relating to delivery and acceptance of the premises as Landlord's lender, Lienor, encoumbrancor or purchaser may require.



ARTICLE 26. TRANSFER BY LANDLORD.

The term "landlord" as used in this Lease, so far as covenants or obligations on the part of Landlord are concerned, shall mean and include only the owner or owners at the time in question of the fee ownership or prime leasehold estate in said premises, and in the event of any transfer or transfers of the title to said premises, Landlord herein named (and in case of any subsequent transfers or conveyances, the then grantor), except as hereinafter provided, shall be automatically freed and relieved from and after the date of such transfer or conveyance, of all personal liability as respected to performances of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed; provided that any funds in which Tenant has an interest which are in the hands of such Landlord or the then grantor at the time of such transfer shall be turned over to the grantee, and any amount then due and payable to Tenant by Landlord or the then grantor under any provisions of this Lease shall be paid to Tenant. It is intended hereby that the covenants and obligations contained in this Lease on the part of Landlord, shall, subject to the foregoing, be binding on Landlord, its successors and assigns, only during and in respect of their respective successive periods of ownership.

ARTICLE 27. MODIFICATION FOR LENDER

If, in connection with obtaining financing for this office park complex, the lender shall request reasonable modifications in the lease as a condition to such financing. Tenant will not unreasonably withhold, delay or defer its consent thereto, provided that such modifications do not increase the obligations of Tenant hereunder or materially adversely affect the leasehold interest hereby created.

ARTICLE 28. INABILITY TO PERFORM.

This Lease and the obligations of Tenant to pay rent hereunder and to keep, observe and perform all the other terms, covenants, conditions, provisions and agreements of this Lease on the part of Tenant to be kept, observed or performed shall in no way be affected, impaired or excused because Landlord is unable to fulfill any of its obligations under this Lease or to supply, or is delayed in supplying any service expressly or impliedly to be supplied or is unable to supply, or is delayed in supplying any equipment or fixtures, if Landlord is prevented or delayed from doing so by reason of strike or labor troubles, unavailability of materials or any other cause beyond the control of Landlord.

ARTICLE 29. SURRENDER OR CANCELLATION.

The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Landlord, terminate all or any existing subleases or may at the option of Landlord, operate as an assignment to Landlord or any or all of such subleases

ARTICLE 30. RULES AND REGULATIONS.

Tenant agrees to obey the rules and regulations in Exhibit "A" as well as such reasonable rules and regulations as may be hereafter adopted by Landlord for the safety, care and cleanliness of the office park complex and said premises and the preservation of good order thereon. Landlord shall not be responsible to Tenant for the nonperformance by any other Tenant or occupant of the office park complex of any of said rules and regulations.

ARTICLE 31. SCOPE AND AMENDMENT.

This Lease is and shall be considered to be the only agreement between the parties hereto. All negotiations and oral agreements acceptable to both parties are included herein. No amendment or other modification of this Lease shall be effective unless in writing.

ARTICLE 32. SAFETY AND HEALTH.

Tenant covenants at all times during the Term of this Lease to comply with the requirements of the Occupational Safety and Health act of 1970, 29 U.S.C. Section 651 et seq and any analogous legislation in California (collectively, the "Act"), to the extent that the Act applies to said premises and any activities thereon and without limiting the generality of the foregoing, Tenant covenants to maintain all working areas, all machinery, structures, electrical facilities and the like upon said premises in any condition that fully complies with the requirements of the Act, including such requirements as would be applicable with respect to agents, employees or contractors of Landlord who may from time to time be present upon said premises, and Tenant agrees to indemnify and hold harmless Landlord from any liability, claims or damages arising as a result of a breach of the foregoing covenant and from all costs, expenses and charges arising therefrom including, without limitation, attorneys' fees and court costs incurred by Landlord in connection therewith, which indemnity shall survive the expiration or termination of this Lease.

ARTICLE 33. MISCELLANEOUS.

Time is of the essence of this Lease. The Article headings herein are used only for the purpose of convenience and shall not be deemed to contain or limit the subject matter of the Articles hereof, nor to be considered in the construction thereof. Each and all of the obligations, covenants, conditions and restrictions of this Lease shall inure to the benefit of and be binding upon and enforceable against, as the case may require, the successors and assigns of Landlord, and subject to the restrictions against assignments and subletting in this Lease contained, any authorized assignee, transferee, sublessee and other successor in interest of Tenant.

In this Lease the neuter gender includes the feminine and masculine and the singular number includes the plural wherever the context so requires.

The term "Tenant" as used in this Lease shall mean and include each person who executes this Lease, jointly and severally, and the act of or notice from, or notice or refund to, or the signature of, any one or more of such persons, with respect to the tenancy or this Lease, including, but not limited to, any renewal, extensions, expiration, termination or modification of this Lease, shall be binding upon each and all of the persons executing this Lease as Tenant with the same force and effect as if each and all of them had so acted or so given or received such notice or refund or so signed.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed on the date hereinafter set forth, following their respective signatures.

By: /s/ Dolores L. McNabb  
-----

SKECHERS USA, INC.,  
a Delaware Corporation

By: /s/ David Weinberg  
-----

Date: September 10, 1998

Date: September 14, 1998

Address: P.O. Box 10001

Address: 228 Manhattan Beach Boulevard

Torrance, CA 90505

Manhattan Beach, CA 90266

-----  
"Landlord"

-----  
"Tenant"

ALL RENTS ARE DUE ON OR BEFORE THE 1ST OF EACH MONTH AND MAILED TO:

D.L. MC NABB  
P.O. BOX 10001  
TORRANCE, CA 90505

RULES AND REGULATIONS

1

No sign, placard, picture, advertisement, name or notice shall be inscribed, displayed or printed or affixed on or to any part of the outside or inside of any building without the written consent of Landlord first had and obtained, and Landlord shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Tenant.

All signs or lettering on doors or buildings shall conform to uniform specifications and standards established by Landlord and shall be printed, painted and affixed by Landlord and billed to Tenant.

Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside said premises; provided, however, that Landlord is to furnish and install a building standard window drapery at all exterior windows.

2

Tenant shall not obtain for use upon the premises ice, drinking water, towel and other similar services or accept barbering or bootblacking services on the premises, except from persons authorized by Landlord and at the hours and under regulations fixed by Landlord.

3

The bulletin board or directory of the building, if any, will be provided exclusively for the display of the name and location of Tenant only, and Landlord reserves the right to exclude any other names therefrom.

4

The sidewalks, halls, passages, entrances, and stairways shall not be obstructed or used by Tenant for any purpose other than for ingress and egress. The halls, passages, exits, entrances, stairways, balconies and roofs are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of Landlord shall be prejudicial to the safety, character, reputation and interests of the premises and tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom Tenant normally deals in the ordinary course of Tenant's business unless such persons are engaged in illegal activities. Neither Tenant nor employees or invitees of Tenant shall go upon the roof of any building.

5

Tenant shall not alter any lock nor install any new or additional locks or any bolts on any door of said premises.

6

The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by Tenant.

7

Tenant shall not overload the floor of said premises or mark, drive nails (normal decorating excepted), screw or drill into the partitions, woodwork or plaster or in any way deface said premises.

8

No equipment of any kind shall be brought into any building without the consent of Landlord, and any moving of furniture, freight and equipment into or out of any building shall be done at such time and in such manner as Landlord shall designate. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment brought into any building and also the times and manner of moving the same in and out of the building. Safes or other heavy objects shall, if considered necessary by Landlord, stand on wood strips of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property from any cause and all damage done to the building by moving or maintaining any such safe or other property shall be repaired at the expense of Tenant.

9

Cleaning of carpets and windows shall be the responsibility of Tenant and shall be paid by Tenant.

10

Tenant shall not use, keep or permit to be used or kept, any foul or noxious gas or substance in said premises, or permit or suffer said premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of any building by reason of noise, odors and/or vibrations, or interfere in any way with the other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about said premises.

11

Tenant shall not use, keep or permit to be used any of the areas within the office complex in any manner which shall cause litter and/or defacing of the buildings, other improvements or landscaping. Tenant agrees that as far as is practical and reasonable, to require its employees and invitees to conform to the rules and regulations set out herein and any additional rules and regulations which are hereafter adopted.

12

All pedestrian traffic within the office complex shall be limited to paved streets and sidewalks and areas specifically designated or approved by Landlord for such uses, e.g., lunch areas, etc.

13

Said premises shall not be used for the storage of merchandise, for washing clothes, for lodging or cooking in conjunction therewith, or for any improper, objectionable or immoral purposes.

14

Tenant shall not use or keep in said premises or the building any kerosene, gasoline or inflammable or combustible fluid or material, or use any method of heating or air-conditioning other than that supplied or approved in writing by Landlord.

15

Landlord will direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for wires will be allowed without the consent of Landlord. The location of telephones, call boxes and other office equipment affixed to said premises shall be subject to the approval of Landlord. Landlord reserves the right to enter upon said premises for the purpose of installing additional electrical wiring and/or other utilities for benefit of Tenant or adjoining tenants.

16

Tenant, upon termination of the tenancy, shall deliver to Landlord the keys to offices and rooms which shall have been furnished Tenant or which Tenant shall have had made, and in the event of loss of any keys so furnished, Tenant shall pay Landlord therefore.

17

Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of said premises in any manner except as approved by Landlord. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by Tenant.

18

If deemed necessary by Landlord, access on Saturdays, Sundays and legal holidays, and on other days between the hours of 6:00 p.m. and 8:00 a.m. the following day, to the office complex, or to the halls, corridors, or stairways in any of the building, or to said premises may be refused unless the person seeking access is known to the person or employee in charge, has a pass, or is properly identified. Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the office complex of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the office complex during the continuance of the same by closing the doors or otherwise, for the safety of the tenants and protection of property.

19

Tenant shall see that the doors of said premises are closed and security locked before leaving the building. Tenant must observe strict care and caution to assure that all water faucets or water apparatus are entirely shut off before Tenant or Tenant's employees leave said premises, and that all electrical switches shall likewise be shut off to prevent waste or damage.

20

Landlord reserves the right to exclude or expel from the office park complex 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 any of the rules and regulations.

21

No vending machine or machines of any description shall be installed, maintained or operated upon said premises without the written consent of Landlord.

22

Landlord shall have the right, exercisable without notice and without liability to Tenant, to charge the name and the street address of the building of which said premises are a part.

23

The parking areas within the office complex shall be used solely for passenger type vehicles during normal office hours and the parking of trucks, trailers, recreational vehicles and campers is specifically prohibited. No vehicle of any type shall be stored within 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 conformance with all signs and other markings.

Tenant shall not place any improvements or movable objects including antennas, outdoor furniture, etc. in the parking areas, landscaped area or other areas outside of said premises, or on the roof of said premises.

"Office complex" refers to the entire office building development of Landlord.

Landlord reserves the right to make such other rules and regulations as in its judgment may be for the safety, care and cleanliness of said premises and the office complex for the preservation of good order therein. Tenant agrees to abide by all such rules and regulations hereinabove stated and any additional rules and regulations which are adopted.

ADDENDUM TO LEASE

FOR PREMISES COMMONLY KNOWN AND DESIGNATED AS:

OFFICES #3, 4, AND 5, SECOND FLOOR OF THE NORTH BUILDING  
904 MANHATTAN AVENUE,

MANHATTAN BEACH, CALIFORNIA

This Addendum to Lease executed on September \_\_, 1998, by and between DOLORES MCNABB, as Landlord, and SKECHERS USA, INC., as Tenant, is an integral part of said Lease as if full 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 than 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 \$167,945.82, payable \$3,375 on execution of this lease and thereafter on the first day of each month as follows:

November 1, 1998 to September 30, 1999	\$2250.00 per month
October 1, 1999 to September 30, 2000	\$2317.50 per month
October 1, 2000 to September 30, 2001	\$2387.00 per month

October 1, 2001 to September 30, 2002	\$2458.61 per month
October 1, 2002 to September 30, 2003	\$2532.37 per month
October 1, 2003 to June 30, 2004	\$2608.34 per month

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 premises 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 12.5% of the building and agree that for purposes of this provision that Tenant shall pay 12.5% of any such increase. Landlord shall provide Tenant with a copy of the tax bill for the sixth year (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 (12.5%) of such increase on or before December 10 of each year and the remaining on half of its pro rata share (12.5%) on or before April 10 of each year.

E. AIR CONDITIONING REPAIR AND MAINTENANCE.

Landlord has provided an air conditioner that services Offices 1, 2, 3, 4 and 5 on the second floor of the north building. Tenant hereby agrees that it will pay any and all costs related to the repair and maintenance of said air conditioner. Further, the parties hereby the air conditioner servicing Offices 1 through 5 is on Landlord's house meter and the gas servicing said Offices is not separately metered. The parties hereby agree that a reasonable estimate of

the monthly electrical and gas costs for Office #3, 4, and 5 is \$175.00. Tenant hereby pay to Landlord \$175.00 per month as reimbursement for such costs. Each year during the term of this Lease, such monthly amount shall be increased by 3% to reflect the anticipated general increase in costs. In the event electrical costs are increased substantially for any reason that makes the above sum unrealistic, as increased annually, the parties agree such sum shall be increased in an amount that reflects such substantial increase in such costs. Tenant may, at its discretion, elect to install separate meters for the gas and electric, at its sole and exclusive expense, and pay the utility costs for Offices 3, 4, and 5 directly. Tenant acknowledges that concurrent with the installation of the electrical meter, it would also have to install a separate air conditioner in order to isolate the expenses to said Offices #3, 4, and 5.

Air Conditioning to Offices #3, 4 and 5 shall be provided between the hours of 7:30 A.M. and 5:30 P.M. Monday through Friday or each week.

#### F. SECURITY DEPOSIT

Tenant shall pay Landlord on execution of this Lease the sum of \$4,500.00 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, the location of which will be designated by Landlord.

#### H. RULES AND REGULATIONS

The Rules and regulations attached hereto are 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 six (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, 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 Landlord, its agents, employees or contracts; (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, even 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 MCNABB

SKECHERS USA, INC.,  
a California corporation

/s/ DOLORES L. MCNABB

by: /s/ DAVID WEINBERG

-----

-----

Date: September 10, 1998

by: David Weinberg, CFO

-----

Date: September 14, 1998

LEASE

THIS LEASE, dated this 14th day of APRIL, 2000 by and between DOLORES L. MC NABB (hereinafter "Landlord"), and SKECHERS USA, INC. a California corporation thereinafter "Tenant").

WITNESSETH:

ARTICLE 1. PREMISES LEASED.

In consideration of the rent and other charges herein specified to be paid and the covenants and conditions to be observed and performed by Tenant. Landlord does hereby lease to Tenant and Tenant does hereby lease from Landlord those premises hereinafter referred to as "said premises" within the office building commonly known and designated as OFFICES #7, 8, and 9, second floor, south building 904 Manhattan Avenue, Manhattan Beach, CA\_\_90266\_\_.

ARTICLE 2. TERM OF LEASE AND DELIVERY OF PREMISES.

The term of this Lease shall be for FIVE (4), THREE (3) MONTHS commencing on the 1st day of APRIL 2000, and ending on the 30th day of June, 2004.

If Landlord, for any reason whatsoever, cannot deliver possession of the said premises to Tenant within \_\_15\_\_ days after the commencement of the term hereof, this Lease shall not be void or voidable, nor shall Landlord be liable to Tenant for any loss or damage resulting therefrom, but in that event all rent shall be abated during the period between the commencement of the said term and the time when Landlord delivers possession.

ARTICLE 3. RENT

See Exhibit "A"

ARTICLE 4. USE.

Said premises shall be occupied and used by Tenant solely for the purposes of conducting therein the business stated in Exhibit "A". In addition thereto:

- A. No use shall be made or permitted of said premises or any part thereof, nor acts done which shall constitute a nuisance or unreasonable annoyance to other tenants in the office park complex nor which shall violate, make inoperative or increase the existing rate of any insurance policy held by or for the benefit of Landlord.
- B. Tenant shall at all times comply with all governmental rules, regulations, ordinances, statute and is now in force or which may hereafter be enforced pertaining to said premises and to Tenant's use thereof, and a finding of guilty by a competent court for any violation thereof shall be conclusively deemed a default under this paragraph.

ARTICLE 5. LANDLORD SERVICES.

Landlord will provide services during reasonable hours of generally recognized business days to be determined by Landlord, and subject to the rules and regulations as set forth in Exhibit "A", as follows:

- A. Heat and air-conditioning during the customary hours as stipulated in the Rules and Regulations.

- B. Electric current for ordinary lighting requirements and for ordinary business appliances such as typewriters and adding machines. Landlord shall not be required to furnish electrical power to operate electrical motors of larger than fractional horsepower. Landlord shall make additional charges for service if Tenant has greater than normal requirements for such services.
- C. Tenant shall pay for all water, gas, electricity, light, power and other utilities supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Tenant, Tenant shall pay a reasonable proportion to be determined by Landlord of all charges jointly metered with other premises. Replacement of fluorescent tubes in the standard lighting fixtures installed in the premises by Landlord shall be provided as required and billed to Tenant.

Landlord, however, shall not be liable for failure to furnish any of the foregoing where such failure is caused by conditions beyond the control of Landlord or by accidents, repairs or strikes; nor shall such failure constitute an eviction; nor shall Landlord be liable under any circumstances except where caused by Landlord's negligence, for loss or damage to property however occurring through or in connection with or incidental to the furnishing of any of the foregoing.

#### ARTICLE 6. PARKING.

See Exhibit "A"

Landlord agrees at its own expense to construct and maintain, or cause to be constructed and maintained, an automobile parking area and to maintain and operate, or cause to be maintained and operated, said automobile parking area during the term of this Lease for the benefit and use of Tenant, its employees, customers and patrons and for other tenants and occupants of the office complex. Wherever the words "automobile parking area" are used in this Lease, it is intended that the same shall include the automobile parking stalls, driveways, entrances and exits and sidewalks, pedestrian passageways in conjunction therewith and other areas designated for parking. Landlord shall keep said automobile parking area in a neat, clean and orderly condition, landscaped, and shall repair any damage to the facilities thereof. Nothing contained herein shall be deemed to create liability upon Landlord for any damage to motor vehicles of customers or employees or from loss of property from within such motor vehicles, unless caused by the negligence of Landlord, its agents, servants and employees. Landlord shall also have the right to establish, and from time to time change, alter and amend, and to enforce against all users of said automobile parking area such reasonable rules and regulations (tenant, its employees, customers and patrons from parking within specific portions therefrom) as may be deemed necessary and advisable for the proper and efficient operation and maintenance of said automobile parking area. The rules and regulations herein provided shall include, without limitation, the hours during which the automobile parking area shall be open for use.

Landlord shall at all times during the term of this Lease have the sole and exclusive control of the automobile parking area, and may at any time and from time to time during the term hereof exclude and restrain any person from use or occupancy thereof; excepting, however, bona fide customers, patrons and service-suppliers of Tenant and other tenants of Landlord who make use of said area in accordance with any rules and regulations established by Landlord from time to time with respect thereto. The rights of Tenant referred to in this Article shall at all times be subject to the rights of Landlord and the other tenants of Landlord, to use the same in common with Tenant, and it shall be the duty of Tenant to keep all of said area free and clear of any obstruction created or permitted by Tenant or resulting from Tenant's operations and to permit the use of any of said area only for normal parking and ingress and

egress by said customers, patrons and service-suppliers to and from the office park complex.

Tenant shall assume sole responsibility for satisfying the requirements of the Environmental Protection Agency, or similar agencies, with respect to their proportionate share of the parking areas.

#### ARTICLE 7. ALTERATIONS AND REPAIRS.

Tenant shall not make or suffer to be made any alterations, additions or improvements to or of said premises or any part thereof without the written consent of Landlord first had and obtained and any alterations, additions or improvements to or of said premises, except movable furniture and trade fixtures, shall at once become a part of the realty and belong to Landlord. In the event Landlord consents to the making of any alteration, additions or improvements to said premises by Tenant, the same shall be made by Tenant at Tenant's sole cost and expense and any contractor or person selected by Tenant to make the same must first be approved of in writing by Landlord. Upon the expiration or sooner termination of the term, Tenant shall, upon demand by Landlord, at Tenant's sole cost and expense, forthwith and with all due diligence remove any alterations, additions or improvements made by Tenant, designated by Landlord to be removed, and Tenant shall forthwith and with all due diligence at its sole cost and expense, repair any damage caused by such removal.

By entry hereunder, Tenant accepts the premises as being in good, sanitary order, condition and repair Tenant shall at Tenant's sole cost and expense keep said premises and every part thereof including glass in good condition and repair, damage thereto by fire, earthquake, act of God or the elements excepted, Tenant hereby waiving all rights to make repairs at the expense of Landlord as provided by any law, statute or ordinance now or hereafter in effect. Tenant shall, upon the expiration or sooner termination of the term hereof, surrender said premises to Landlord in the same condition as when received, ordinary wear and tear and damage by fire, earthquake, act of God or the elements excepted. It is specifically understood and agreed that Landlord has no obligation and has made no promises to alter, remodel, improve, repair, decorate or paint said premises or any part thereof and that no representations respecting the conditions of said premises or the building of which said premises are a part have been made by Landlord to Tenant except as specifically herein set forth. See Exhibit "A".

#### ARTICLE 8. CHANGES OR ALTERATIONS BY LANDLORD

Landlord reserves the right at any time and from time to time without the same constituting an actual or constructive eviction and without incurring any liability to Tenant therefore or otherwise affecting Tenant's obligations under this Lease, to make such changes, alterations, additions, improvements, repairs or replacements in or to the office complex (including said premises if required so to do by any law or regulation) and the fixtures and equipment thereof, as well as in or to the plenum area (air space above the ceiling), and stairways thereof, as Landlord may deem necessary or desirable, and to change the arrangement or location of entrances or passageways, doors and corridors, provided, however, that there be no unreasonable obstruction of the right of access to, or unreasonable interference with the use and enjoyment of said premises by Tenant.

#### ARTICLE 9. LANDLORD'S NONLIABILITY

Landlord shall no be liable for any loss or damage to the goods, wares, merchandise and other property of Tenant in, upon or about said premises or for any injury to the person (including death) of Tenant or its employees, agents, subtenants or invitees or other persons, caused by any use thereof, or arising from any accident or fire or other casualty thereon or from any other cause whatsoever, unless caused by Landlord's negligence, nor shall Landlord be liable for any such loss, damage or injury occurring anywhere in the office park complex and caused

by the act or neglect of Tenant, its agents or employees; and Tenant hereby waives on its behalf all claims against Landlord for any such loss or injury and hereby agrees to indemnify and save Landlord harmless from all liability for any such loss, damage or injury and in the event action is brought against Landlord on account of such loss, damage or liability and Landlord elects not to accept Tenant's proffered defense of such action, Tenant shall nevertheless pay the cost of Landlord's reasonable attorney's fees incurred in connection therewith.

#### ARTICLE 10. INSURANCE.

All insurance provided for herein shall name Landlord as an additional insured as its interest may appear. Policies will provide a 30-day written notice to Landlord in the event of cancellation by Tenant's insurance company.

Tenant agrees to maintain statutory Workmen's Compensation Insurance and comprehensive public liability insurance with the following minimum limits: combined single limit coverage of not less than \$1,000,000 with respect to personal injury death or property damage resulting from any one occurrence: the minimum limits shall not, however limit the liability of Tenant hereunder.

It shall be Tenant's responsibility to maintain full "ALL RISK" insurance on its property and rental value and glass insurance on said premises.

It shall be Landlord's responsibility to insure said premises against fire and extended coverage damage.

So long as their respective insurers so permit, Tenant and Landlord hereby mutually waive their respective rights of recovery against each other for any loss insured by fire, extended coverage and other property insurance policies existing for the benefit of the respective party. Each party shall obtain any special endorsements, if required by their insurer, to evidence compliance with the aforementioned waiver.

Certificates of insurance stating the above will be provided to Landlord by Tenant.

#### ARTICLE 11. ASSIGNMENT AND SUBLETTING.

- A. Tenant shall not transfer or assign this Lease, or any right or interest hereunder, nor sublet said premises or any part thereof, without the prior written consent (which consent shall not be unreasonable withheld) and approval of Landlord provided, however, that such consent shall not be unreasonably withheld so long as (i) the proposed assignee or sublessee is as financially and morally responsible as Tenant and (ii) evidence satisfactory to Landlord is offered to show that the proposed assignee or sublessee is likely to conduct on said premises a business of a quality substantially equal to that conducted by Tenant. No transfer or assignment, whether voluntary or involuntary, by operation of law, under legal process or proceedings, by receivership, in bankruptcy, or otherwise, and no subletting shall be valid or effective without such prior written consent and approval. Should Tenant attempt to make or suffer to be made any such transfer, assignment or subletting, except as aforesaid, or should any of Tenant's rights under this Lease be sold or otherwise transferred by or under court order or legal process or otherwise or should Tenant be adjudged insolvent or bankrupt, then and in any of the foregoing events Landlord may, at its option, terminate this Lease forthwith by written notice thereof to Tenant. Should Landlord consent to any such transfer, assignment or subletting, such consent shall not constitute a waiver of any of the restrictions of this Article and the same shall apply to each successive transfer, assignment or subletting hereunder, if any.
- B. If Tenant hereunder is a corporation, an unincorporated

association, or a partnership, the transfer, assignment or hypothecation of any stock or interest in such corporation, association or partnership in the aggregate in excess of Forty-nine percent (49%) shall be deemed an assignment within the meaning and provisions of this Article; provided, however, a transfer or assignment of any such stock or interest by a shareholder or member to his spouse, children or grandchildren is excepted from the foregoing provision.

#### ARTICLE 12. RIGHT OF ENTRY.

Landlord reserves and shall at any time and at all times have the right to enter upon said premises to inspect the same, and perform any service to be provided by Landlord to Tenant hereunder, to submit said premises to prospective purchasers or tenants, to post notices of nonresponsibility, and to alter, improve or repair said premises and any portion of the building of which said premises are a part, without abatement of rent, and may for that purpose erect scaffolding and other necessary structures where reasonably required by the character of the work to be performed, always providing the entrance to said premises shall not be blocked thereby, and further providing that the business of Tenant shall not be interfered with unreasonably. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of said premises, and any other loss occasioned thereby. For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in, upon and about said premises, excluding Tenant's vaults and safes, and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency, in order to obtain entry to said premises, and any entry to the premises obtained by landlord by any of said means, or otherwise, shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of said premises, or an eviction of Tenant from said premises or any portion thereof.

#### ARTICLE 13. BANKRUPTCY-INSOLVENCY.

Tenant agrees that in the event all or substantially all of Tenant's assets are placed in the hands of a receiver or trustee, and such receivership or trusteeship continues for a period of 30 days, or should Tenant make an assignment for the benefit of creditors or be adjudicated a bankrupt, or should Tenant institute any proceedings under the Bankruptcy Act or under any amendment thereof which may hereafter be enacted, or under any other act relating to the subject of bankruptcy wherein Tenant seeks to be adjudicated a bankrupt, or to be discharged of its debts, or to effect a plan of liquidation, composition or reorganization, or should any involuntary proceeding be filed against the Tenant under any such bankruptcy laws and Tenant consents thereto or acquiesces therein by pleading or default, then this Lease or any interest in and to said premises shall not become an asset in any of such proceedings and, in any such event and in addition to any and all rights or remedies of Landlord hereunder, or by law provided, it shall be lawful for Landlord to declare the Term hereof ended and to re-enter said premises and take possession thereof and remove all persons therefrom, Tenant shall have no further claim thereon or hereunder.

#### ARTICLE 14. LIENS.

Tenant shall not permit to be enforced against said premises, or any part thereof, any mechanics', material-men's, contractors' or other liens arising from, or any claims for damages growing out of, any work or repair or alteration as herein authorized or otherwise arising (except from the actions of Landlord), and Tenant shall pay or cause to be paid all of said liens and claims before any action is brought to enforce the same against Landlord or said premises: and Tenant agrees to indemnify and hold Landlord and said premises free and harmless from all liability for any and all such liens and claims and all costs and expenses in connection therewith. Tenant shall give Landlord no less than 20 days prior notice in writing commencing construction of any kind on the premises so that Landlord may post notices of nonresponsibility.

ARTICLE 15. LANDLORD PAYING CLAIMS.

Should Tenant fail to pay and discharge, when due and payable, any tax or assessment, or any premium or other charge in connection with any insurance policy or policies which Tenant is obligated to pay, or any lien or claim for labor or material employed or used in, or any claim for damages arising out of the repair, alterations, maintenance and use of said premises, as provided in this Lease, after 10 days written notice from Landlord, the Landlord may, at its option, and without waiving or releasing Tenant from any of Tenant's obligations hereunder, pay any such tax, assessment, lien, claim, insurance premium or charge, or settle or discharge any action therefore or satisfy any judgment thereon. All costs, expenses and other sums, incurred or paid by Landlord in connection therewith, together with interest at the rate of 10% per annum on such costs, expenses and sums from the date incurred or paid by Landlord, shall be deemed to be additional rent hereunder and shall be paid by Tenant with and at the same time as the next installment of rent hereunder, and any default therein shall constitute a breach of the covenants and conditions of this Lease.

ARTICLE 16. DESTRUCTION OF PREMISES.

A. In the event the building of which said premises are a part is damaged by fire, or perils covered by insurance, the Landlord shall:

1. In the event of total destruction, within a period of 90 days thereafter, commence repair, reconstruction and restoration of said building and prosecute the same diligently to completion, in which event this Lease shall continue in full force and effect; or within said 90 day period elect not to so repair, reconstruct or restore said building, in which event this Lease shall cease and terminate. In either event, Landlord shall give the Tenant written notice of its intention within said 90 day period. In the event Landlord elects not to restore said building, this Lease shall be deemed to have terminated as of the date of such total destruction.

2. In the event of a partial destruction of the building to an extent not exceeding 25% of the full insurable value thereof and if the damage thereto is such that the building may be repaired, reconstructed or restored within a period of 90 days from the date of the happening of such casualty and Landlord will receive insurance proceeds sufficient to cover the costs of such repairs, Landlord shall commence and proceed diligently with the work of repair, reconstruction and restoration and the Lease shall continue in full force and effect; or if such work or repair, reconstruction and restoration is such as to require a period longer than 90 days or exceed 25% of the full insurable value thereof, or if said insurance proceeds will not be sufficient to cover the cost of such repairs, Landlord may either elect to so repair, reconstruct and restore and the Lease shall continue in full force and effect, or Landlord may elect not to repair, reconstruct or restore and the Lease shall in such event terminate. Under any of the conditions of this subparagraph, Landlord shall give written notice to Tenant of its intention within the period of 90 days. In the event Landlord elects not to restore said building, this Lease shall be deemed to have terminated as of the date of such partial destruction.

B. Upon any termination of this Lease under any of the provisions of this Article, the parties shall be released thereby without further obligation to the other coincident with the surrender

of possession of the premises to Landlord except for items which have theretofore accrued and are then unpaid.

- C. In the event of repair, reconstruction and restoration as herein provided, the rental provided to be paid under this Lease shall be abated proportionately in the ratio which the Tenant's use of said premises is

impaired during the period of such repair, reconstruction or restoration. Tenant shall not be entitled to any compensation or damages for loss in the use of the whole or any part of said premises and/or any inconvenience or annoyance occasioned by any such damage, repair, reconstruction or restoration.

- D. Tenant shall not be released from any of its obligations under this Lease except to the extent and upon the conditions expressly stated in this Article. Notwithstanding anything to the contrary contained in this Article, should Landlord be delayed or prevented from repairing or restoring said damaged premises within on (1) year after the occurrence of such damage or destruction by reason of acts of God, war, governmental restrictions, inability to procure the necessary labor or materials, or other cause beyond the control of Landlord, Landlord shall be relieved of its obligation to make such repairs or restoration and Tenant shall be released from its obligations under this Lease as of the end of said one (1) year period.

- E. In the event that damage is due to any other cause than set forth in Paragraph A above, Landlord may elect to terminate this Lease.

- F. It is understood that if Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall be obligated to make repairs or restoration only of those portions of said building and said premises which were originally provided at Landlord's expense; and the repair and restoration of items not provided at Landlord's expense shall be the obligation of Tenant.

#### ARTICLE 17. LATE PAYMENTS.

See Exhibit "A"

#### ARTICLE 18. REMEDIES.

Should Tenant at any time be in default hereunder with respect to any rental payments or other charges payable by Tenant hereunder, and should such default continue for a period of 10 days after written notice from Landlord, or should Tenant be in default in performance of any other of its promises, covenants or agreements herein contained (other than any breach under the Article entitled "Assignment and Subletting" for which immediate notice of termination may be given) and should such default continue for 30 days after written notice thereof from Landlord to Tenant specifying the particulars of such default, or should Tenant vacate or abandon the premises, this Lease shall remain in full force and effect, provided, however, that in any of such events and in addition to any or all other rights or remedies of Landlord hereunder or by the law provided, it shall be, at the option of Landlord:

- A. The right of Landlord to declare the term hereof ended and to re-enter said premises and take possession thereof and remove all persons therefrom, and Tenant shall have no further claim thereon on thereunder; or
- B. The right of Landlord, even though it may have brought an action to collect rent and other charges without terminating



this Lease, to thereafter elect to terminate this Lease and all of the rights of Tenant in or to said premises; or

- C. The right of Landlord, without terminating this Lease, to begin an action or actions to collect rent and other charges hereunder which are from time to time past due and unpaid; it being understood that the bringing of such action or actions shall not terminate this Lease unless notice of termination is given.

Should Landlord elect to terminate this Lease, Landlord shall be entitled to recover from the Tenant as damages: (1) 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 for the same period that Tenant proves could be reasonably avoided (ii) the cost of recovering said premises to the condition required in the Article entitled "Removal" and (iii) such other amounts as are provided for in Section 1951.2 of the California Civil Code

If Landlord shall elect to re-enter said premises, Landlord shall not be liable for damages by reason of such re-entry.

Notwithstanding any other provision of this Article, Landlord agrees that if the default complained of, other than for the payment of monies, is of such a nature that the same cannot be cured within the 30 day period specified above, then such default shall be deemed to be cured if the Tenant within such a period shall have commenced the curing thereof and shall continue thereafter withal the diligence to cause such curing and does so complete the same with the use of such diligence.

All rights, options and remedies of Landlord contained in the Lease shall be construed and held to be cumulative, and no one of them shall be exclusive of the other, and Landlord shall have the right to pursue anyone or all of such remedies or any other remedy or relief which may be provided by law, whether or not stated in this Lease. No waiver or any default of Tenant hereunder shall be implied from any acceptance by Landlord or any rent or other payments due hereunder or any omission by Landlord to take any action or account of such default if such default persists or is repeated, and no express waiver shall affect default other than as specified in said waiver. The

consent or approval by Landlord to or of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent or approval to or any of subsequent similar acts by Tenant.

#### ARTICLE 19. SECURITY DEPOSIT.

Tenant has deposited with Landlord the sum in the attached Exhibit "A" as security for the full performance of the provisions of this Lease. If Tenant defaults in any particular, Landlord may use or retain the whole or any part of the security in lieu of any sum due Landlord including repair of damages or cleaning of the premises upon termination or to defray any expense or damages reasonably incurred by reason of the default, and Tenant shall on demand pay to Landlord a like sum as additional security. If Tenant is not in default at the termination of this Lease, Landlord shall return the deposit to Tenant and may do this by either paying this sum to Tenant or crediting it against the last payment(s) of rent. Landlord's obligation respecting the deposit is that of a debtor, not a trustee, the fund may be commingled to dissipate, or both and not interest shall accrue thereon,

#### ARTICLE 20. ATTORNEY'S FEES.

In the event that any action shall be instituted by either of the parties hereto for the enforcement of any of its rights or remedies in and under this Lease, the party in whose favor judgment shall be rendered shall be entitled to recover from the other party all costs incurred by said prevailing party in said action, including reasonable attorney's fees to be fixed by the court therein.

ARTICLE 21. REMOVAL

- A. Personal Property. Upon the expiration of the Term of this Lease, or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the said premises to Landlord in the same condition as upon delivery of possession to Tennant hereunder, reasonable wear and tear and damage by fire, acts of God, the elements and unavoidable casualty excepted. Before surrendering possession of said premises as aforesaid, Tenant shall, without expense to Landlord, remove or cause to be removed from said premises all signs, furnishings, equipment, trade fixtures, merchandise and other personal property placed therein. And all rubbish and debris, and Tenant shall repair all damage to said premises resulting from such removal. If requested by Landlord, Tenant shall execute, acknowledge and deliver to Landlord an instrument in writing releasing and quitclaiming to Landlord all rights, title and interest in Tenant in and to said premises by reason of this lease or otherwise. If Tenant fails to remove any of its signs, furnishings, equipment, trade fixtures, merchandise, or other personal property within 10 days after the expiration or termination of this Lease, then Landlord may, at its sole option (1) treat Tenant as a holdover, in which even the provision of the Article of this Lease regarding Holding Over shall apply: (ii) deem any and all of such items abandoned and the sole property of Landlord, or (iii) remove any or all of such items and dispose of same in any manner or store same for Tenant, in which event the expense of such disposition or storage shall be borne by Tenant and shall be immediately due and payable.
- B. Fixtures, Equipment and Improvements. All fixtures, equipment improvements and appurtenances attached to or built into said premises prior to or during the Term, whether by Landlord at its expense or at the expense of Tenant or both, shall be and remain part of said premises and shall not be removed by Tenant at the end of the Term unless otherwise expressly provided for in this Lease. Such fixtures, equipment, improvements and appurtenances shall include but not be limited to" all floor coverings, drapes, paneling, molding, doors vaults (exclusive of vault doors), plumbing systems, electrical systems, lighting systems, cooling systems, ventilation systems, sprinkling systems, silencing equipment, communication systems, all fixtures and outlets for the systems mentioned above and for all telephone, radio, telegraph and television purposes, and any special flooring or ceiling installations.

ARTICLE 22. PAYMENTS AND NOTICES.

- A. Payments of Rent: The rent specified herein shall be paid to Landlord or to such other person or persons or at such other address or addresses as Landlord hereafter may designate by written notice to Tenant. Payment of rent to any person or persons so designated by Landlord shall exonerate Tenant from all responsibility therefore or for the proper distribution thereof.
- B. Notices. Any notice or demands which may or must be given by either party to the other hereunder shall be deemed to have been duly given when made by personal service or in writing and deposited for mailing by United States mail, postage prepaid, addressed as following or to such other place as the parties may hereafter in writing direct.

To Landlord: At the address set forth on the signature page of this Lease

To Tenant: At the address set forth on the signature page  
of this Lease

ARTICLE 23. EMINENT DOMAIN

- A. Definition of Terms. The terms "total taking" as used in this Article means the taking of the entire premises under the power of eminent domain or a taking of so much of said premises as to prevent or substantially impair the conduct of Tenant's business therein. The term "partial taking" means the taking of a portion only of said premises which does not constitute a total taking as above defined
- B. Total Taking. If during the term here of, there shall be a total taking by public authority under the power of eminent domain, then the leasehold estate of Tenant in and to said premises shall cease and terminate as of the dated actual physical possession thereof shall be so taken.
- C. Partial Taking. If during said term there shall be a partial taking of said premises, this Lease shall terminate as to the portion of said premises taken upon the date upon which actual possession of said premises is taken pursuant to said eminent domain proceedings, but said Lease shall continue in force and effect as to the remainder of said premises. The minimum guaranteed rental payable by Tenant for the balance of said term shall be abated in the ration that the square footage of floor area of said premises taken bears to the total floor area of said premises at the time of such taking.
- D. Taking of Parking Area. In the event there shall be a taking of the parking area such that Landlord can no longer comply with applicable municipal parking ordinances or similar regulations of other public agencies Landlord may substitute therefore reasonably equivalent parking in a location reasonably close to said premises: provided that if Landlord fails to make such substitution within a reasonable time following such taking. Tenant may, at its option, terminate this Lease by notice to Landlord. If this Lease is not so terminated by Tenant, there shall be no reduction, change or abatement of any rent or other charge payable by Tenant hereunder and this Lease shall continue in full force and effect.
- E. Allocation of Award. All compensation and damages awarded for the taking of said premises, or any portion or portions thereof, shall, except as otherwise herein provided, belong to and be the sole property of Landlord, and Tenant shall not have any claim or be entitled to any award for the diminution in value of its leasehold hereunder or for the value of any unexpired term of this Lease": provided, however, Tenant shall be entitled to any award that may be made for the taking of or injury to or on account of any cost or loss Tenant may sustain in the removal of Tenant's merchandise, fixtures, equipment and furnishings.
- F. Effect of Termination. If this Lease is terminated, in whole or in part pursuant, to any of the provisions of this Article, all rentals and other charges payable by Tenant to Landlord hereunder and attributable to the premises taken, shall be paid up to the date upon which actual physical possession shall be taken by the condemner and the parties shall thereupon be released form all further liability in relation thereto.
- G. Voluntary Sales. A voluntary sale by Landlord to any

public body or agency having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed to be a taking under the power of eminent domain for the purpose of this Article.

ARTICLE 24. HOLDING OVER.

This Lease shall terminate and become null and void without further notice upon the expiration of the Term herein specified, and any holding over by Tenant after such expiration shall not constitute a renewal thereof, to give Tenant any rights under this Lease, except as otherwise herein provided, it being understood and agreed that this Lease cannot be renewed, extended or in any manner modified except in writing signed by both parties hereto: provided, however, that nothing in the Article shall be construed to alter or impair the provisions of Article 231 hereof. If Tenant shall hold over for any period after the expiration of said Term, Landlord may, at it's option, exercise by written notice to Tenant, treat Tenant as a tenant from month-to-month commencing on the 1st day following the expiration of this Lease and subject to the terms and condition herein contained except that the Basic Rental portion of the monthly rental, which shall b payable in advance shall be 150\$% of said Basic Rental applicable to the date of expiration. If Tenant ails to surrender the premises upon the expiration of the Lease despite demand to do so by Landlord, Tenant shall indemnify and hold Landlord harmless from all loss or liability including without limitation, any claims made by any succeeding Tenant founded on or resulting from such failure to surrender,

ARTICLE 25. SUBORDINATION AND STATEMENT OF TENANT.

The rights of Tenant under this Lease are and shall be subject to and subordinate to all present and future ground or underlying Leases and amendments thereto, the declaration and recording of covenants, conditions and restrictions relating to the office complex and operation thereof, and the lien of any mortgage and/or any deed or trust or other encumbrance which now exists or may hereafter affect said premises together with all renewals, modifications, consolidations, replacements or extensions thereof: Tenant covenants and agree that it will execute without further consideration any and all instruments desired by Landlord subordinating in the manner requested by Landlord this Lease; provided that any Lienor or encumbrancor relying on such subordination or such additional agreements will covenant with Tenant that this Lease shall remain in full force and effect, and tenant shall not be

disturbed in the event of sale or foreclosure so long as Tenant is not in default hereunder. Tenant agrees to attorney to the successor in interest of landlord following any transfer of such interest either voluntarily or by operation of law and to recognize such successor as Landlord under this Lease. However, if Landlord so elects, this Lease shall be deemed prior to lien to any mortgage, deed of trust or other encumbrance upon or including the premises regardless of date of recording and Tenant will execute a statement in writing to such effect at Landlord's request. Landlord is hereby irrevocably appointed and authorized as agent and attorney-in-fact of Tenant to execute all subordination instruments in the event Tenant fails to execute said instruments within five (5) days after notice form Landlord demanding the execution thereof.

Statement of Tenant. Tenant shall, at any time and from time to time, upon not less that 10 (10) days prior written notice by Landlord, execute, acknowledge, and deliver to Landlord a statement in writing certifying that this lease is unmodified and in full force and effect (or, if there has been any modification thereof, that the same is in full force and effect as modified and stating the modification or modifications) and that Landlord is not in default, except as specified in such statement, in regard to any of its covenants or obligations under this Lease, and further setting forth the dated to which all sums payable as rental hereunder have been paid in advance, if any, and such other statements relating to delivery and acceptance of the premises as Landlord's lender, Lienor, encoumbrancor or purchaser may require.

ARTICLE 26. TRANSFER BY LANDLORD.

The term "landlord" as used in this Lease, so far as covenants or obligations on the part of Landlord are concerned, shall mean and include only the owner or owners at the time in question of the fee ownership or prime leasehold estate in said premises, and in the event of any transfer or transfers of the title to said premises, Landlord herein named (and in case of any subsequent transfers or conveyances, the then grantor), except as hereinafter provided, shall be automatically freed and relieved from and after the date of such transfer or conveyance, of all personal liability as respected to performances of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed; provided that any funds in which Tenant has an interest which are in the hands of such Landlord or the then grantor at the time of such transfer shall be turned over to the grantee, and any amount then due and payable to Tenant by Landlord or the then grantor under any provisions of this Lease shall be paid to Tenant. It is intended hereby that the covenants and obligations contained in this Lease on the part of Landlord, shall, subject to the foregoing, be binding on Landlord, its successors and assigns, only during and in respect of their respective successive periods of ownership.

#### ARTICLE 27. MODIFICATION FOR LENDER

If, in connection with obtaining financing for this office park complex, the lender shall request reasonable modifications in the lease as a condition to such financing. Tenant will not unreasonably withhold, delay or defer its consent thereto, provided that such modifications do not increase the obligations of Tenant hereunder or materially adversely affect the leasehold interest hereby created.

#### ARTICLE 28. INABILITY TO PERFORM.

This Lease and the obligations of Tenant to pay rent hereunder and to keep, observe and perform all the other terms, covenants, conditions, provisions and agreements of this Lease on the part of Tenant to be kept, observed or performed shall in no way be affected, impaired or excused because Landlord is unable to fulfill any of its obligations under this Lease or to supply, or is delayed in supplying any service expressly or impliedly to be supplied or is unable to supply, or is delayed in supplying any equipment or fixtures, if Landlord is prevented or delayed from doing so by reason of strike or labor troubles, unavailability of materials or any other cause beyond the control of Landlord.

#### ARTICLE 29. SURRENDER OR CANCELLATION.

The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Landlord, terminate all or any existing subleases or may at the option of Landlord, operate as an assignment to Landlord or any or all of such subleases.

#### ARTICLE 30. RULES AND REGULATIONS.

Tenant agrees to obey the rules and regulations in Exhibit "A" as well as such reasonable rules and regulations as may be hereafter adopted by Landlord for the safety, care and cleanliness of the office park complex and said premises and the preservation of good order thereon. Landlord shall not be responsible to Tenant for the nonperformance by any other Tenant or occupant of the office park complex of any of said rules and regulations.

#### ARTICLE 31. SCOPE AND AMENDMENT.

This Lease is and shall be considered to be the only agreement between the parties hereto. All negotiations and oral agreements acceptable to both parties are included herein. No amendment or other modification of this Lease shall be effective unless in writing.

#### ARTICLE 32. SAFETY AND HEALTH.

Tenant covenants at all times during the Term of this Lease to comply with the requirements of the Occupational Safety and Health act of 1970, 29 U.S.C. Section 651 et seq and any analogous legislation in California (collectively, the "Act"), to the extent that the Act applies to said premises and any activities thereon and without limiting the generality of the foregoing, Tenant covenants to maintain all working areas, all machinery, structures, electrical facilities and the like upon said premises in any condition that fully complies with the requirements of the Act, including such requirements as would be applicable with respect to agents, employees or contractors of Landlord who may from time to time be present upon said premises, and Tenant agrees to indemnify and hold harmless Landlord from any liability, claims or damages arising as a result of a breach of the foregoing covenant and from all costs, expenses and charges arising therefrom including, without limitation, attorneys' fees and court costs incurred by Landlord in connection therewith, which indemnity shall survive the expiration or termination of this Lease.

ARTICLE 33. MISCELLANEOUS.

Time is of the essence of this Lease. The Article headings herein are used only for the purpose of convenience and shall not be deemed to contain or limit the subject matter of the Articles hereof, nor to be considered in the construction thereof. Each and all of the obligations, covenants, conditions and restrictions of this Lease shall inure to the benefit of and be binding upon and enforceable against, as the case may require, the successors and assigns of Landlord, and subject to the restrictions against assignments and subletting in this Lease contained, any authorized assignee, transferee, sublessee and other successor in interest of Tenant.

In this Lease the neuter gender includes the feminine and masculine and the singular number includes the plural wherever the context so requires.

The term "Tenant" as used in this Lease shall mean and include each person who executes this Lease, jointly and severally, and the act of or notice from, or notice or refund to, or the signature of, any one or more of such persons, with respect to the tenancy or this Lease, including, but not limited to, any renewal, extensions, expiration, termination or modification of this Lease, shall be binding upon each and all of the persons executing this Lease as Tenant with the same force and effect as if each and all of them had so acted or so given or received such notice or refund or so signed.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed on the date hereinafter set forth, following their respective signatures.

SKECHERS U.S.A., INC., a Delaware corporation

By: /s/ Dolores L. McNabb  
-----

By: /s/ Michael Greenberg  
-----

Date: April 15, 2000

Date: April 14, 2000

Address: P.O. Box 10001  
Torrance, CA 90505

Address: 228 Manhattan Beach Boulevard  
Manhattan Beach, CA 90266

-----  
"Landlord"

-----  
"Tenant"

ALL RENTS ARE DUE ON OR BEFORE THE 1ST OF EACH MONTH AND MAILES TO:

D.L. MC NABB  
P.O. BOX 10001  
TORRANCE, CA 90505

RULES AND REGULATIONS

No sign, placard, picture, advertisement, name or notice shall be inscribed, displayed or printed or affixed on or to any part of the outside or inside of any building without the written consent of Landlord first had and obtained, and Landlord shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Tenant.

All signs or lettering on doors or buildings shall conform to uniform specifications and standards established by Landlord and shall be printed, painted and affixed by Landlord and billed to Tenant.

Tenant shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside said premises; provided, however, that Landlord is to furnish and install a building standard window drapery at all exterior windows.

2

Tenant shall not obtain for use upon the premises ice, drinking water, towel and other similar services or accept barbering or bootblacking services on the premises, except from persons authorized by Landlord and at the hours and under regulations fixed by Landlord.

3

The bulletin board or directory of the building, if any, will be provided exclusively for the display of the name and location of Tenant only, and Landlord reserves the right to exclude any other names therefrom.

4

The sidewalks, halls, passages, entrances, and stairways shall not be obstructed or used by Tenant for any purpose other than for ingress and egress. The halls, passages, exits, entrances, stairways, balconies and roofs are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of Landlord shall be prejudicial to the safety, character, reputation and interests of the premises and tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom Tenant normally deals in the ordinary course of Tenant's business unless such persons are engaged in illegal activities. Neither Tenant nor employees or invitees of Tenant shall go upon the roof of any building.

5

Tenant shall not alter any lock nor install any new or additional locks or any bolts on any door of said premises.

6

The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by Tenant.

7

Tenant shall not overload the floor of said premises or mark, drive nails (normal decorating excepted), screw or drill into the partitions, woodwork or plaster or in any way deface said premises.

8

No equipment of any kind shall be brought into any building without the consent of Landlord, and any moving of furniture, freight and equipment into or out of any building shall be done at such time and in such manner as Landlord

shall designate. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment brought into any building and also the times and manner of moving the same in and out of the building. Safes or other heavy objects shall, if considered necessary by Landlord, stand on wood strips of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property from any cause and all damage done to the building by moving or maintaining any such safe or other property shall be repaired at the expense of Tenant.

9

Cleaning of carpets and windows shall be the responsibility of Tenant and shall be paid by Tenant.

10

Tenant shall not use, keep or permit to be used or kept, any foul or noxious gas or substance in said premises, or permit or suffer said premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of any building by reason of noise, odors and/or vibrations, or interfere in any way with the other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about said premises.

11

Tenant shall not use, keep or permit to be used any of the areas within the office complex in any manner which shall cause litter and/or defacing of the buildings, other improvements or landscaping. Tenant agrees that as far as is practical and reasonable, to require its employees and invitees to conform to the rules and regulations set out herein and any additional rules and regulations which are hereafter adopted.

12

All pedestrian traffic within the office complex shall be limited to paved streets and sidewalks and areas specifically designated or approved by Landlord for such uses, e.g., lunch areas, etc.

13

Said premises shall not be used for the storage of merchandise, for washing clothes, for lodging or cooking in conjunction therewith, or for any improper, objectionable or immoral purposes.

14

Tenant shall not use or keep in said premises or the building any kerosene, gasoline or inflammable or combustible fluid or material, or use any method of heating or air-conditioning other than that supplied or approved in writing by Landlord.

15

Landlord will direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for wires will be allowed without the consent of Landlord. The location of telephones, call boxes and other office equipment affixed to said premises shall be subject to the approval of Landlord. Landlord reserves the right to enter upon said premises for the purpose of installing additional electrical wiring and/or other utilities for benefit of Tenant or adjoining tenants.

16

Tenant, upon termination of the tenancy, shall deliver to Landlord the keys to offices and rooms which shall have been furnished Tenant or which Tenant



shall have had made, and in the event of loss of any keys so furnished, Tenant shall pay Landlord therefore.

17

Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of said premises in any manner except as approved by Landlord. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by Tenant.

18

If deemed necessary by Landlord, access on Saturdays, Sundays and legal holidays, and on other days between the hours of 6:00 p.m. and 8:00 a.m. the following day, to the office complex, or to the halls, corridors, or stairways in any of the building, or to said premises may be refused unless the person seeking access is known to the person or employee in charge, has a pass, or is properly identified. Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the office complex of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the office complex during the continuance of the same by closing the doors or otherwise, for the safety of the tenants and protection of property.

19

Tenant shall see that the doors of said premises are closed and security locked before leaving the building. Tenant must observe strict care and caution to assure that all water faucets or water apparatus are entirely shut off before Tenant or Tenant's employees leave said premises, and that all electrical switches shall likewise be shut off to prevent waste or damage.

20

Landlord reserves the right to exclude or expel from the office park complex 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 any of the rules and regulations.

21

No vending machine or machines of any description shall be installed, maintained or operated upon said premises without the written consent of Landlord.

22

Landlord shall have the right, exercisable without notice and without liability to Tenant, to charge the name and the street address of the building of which said premises are a part.

23

The parking areas within the office complex shall be used solely for passenger type vehicles during normal office hours and the parking of trucks, trailers, recreational vehicles and campers is specifically prohibited. No vehicle of any type shall be stored within 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 conformance with all signs and other markings.

24

Tenant shall not place any improvements or movable objects including

antennas, outdoor furniture, etc. in the parking areas, landscaped area or other areas outside of said premises, or on the roof of said premises.

25

"Office complex" refers to the entire office building development of Landlord.

26

Landlord reserves the right to make such other rules and regulations as in its judgment may be for the safety, care and cleanliness of said premises and the office complex for the preservation of good order therein. Tenant agrees to abide by all such rules and regulations hereinabove stated and any additional rules and regulations which are adopted.

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 than 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 MCNABB

SKECHERS USA, INC.,  
a Delaware corporation

Delores L. McNabb

by /s/ Michael Greenberg

-----

-----

Date April 15, 2000

by Michael Greenberg

-----

-----

Date 4/14, 2000

-----

FIRST AMENDMENT TO LEASE

This First Amendment to Lease ("First Amendment") is entered into on October 26th 2000 by and between MANHATTAN CORNERS, LLC a California Limited Liability Company ("Lessor") and SKECHERS. U.S.A., INC A Delaware Corporation ("Lessee") with reference to the following facts and objectives.

- A. On April 28, 2000, Lessor and Lessee executed that certain Standard Industrial/Commercial Single-Tenant Lease-Net (The "Lease") to the premises located 1100 Highland Avenue, Manhattan Beach, California (the "Premises").
- B. The parties now desire to amend the Lease in certain Particulars.

Now, therefore, the parties agree as follows:

1. Amendment to Lease. The parties hereby amend the Lease in the following particulars only

Commencement Date. The parties agree that the Commencement Date as set forth in the Lease shall be November 1, 2000. Lessee acknowledges that it has received possession of the Premises and that its obligations to pay Base Rent shall commence on November 1, 2000. The parties further acknowledge that Lessor has been unable to obtain all required governmental approvals and sign offs for its construction of the Premises, due to Lessee's continuing tenant improvement work. The parties agree to cooperate in good faith, to enable Lessee to complete its improvement fork, and to enable Lessor to obtain all necessary governmental approvals and sign-offs and a Certificate of Occupancy. Lessee agrees to keep Lessor apprised of the progress of its tenant improvement work, so that appropriate governmental inspections can be schedule and completed in a timely manner. Additionally, Lessor agrees that from the date Lessee ha completed its tenant improvement work and notified Lessor thereof, Lessor will proceed diligently to complete its work and to obtain all necessary governmental approval and sign-offs and a Certificate of Occupancy. Furthermore, in the event that Lessor has not obtained all necessary governmental approval and sign-offs within the hundred (100) days from the date that Lessee has notified Lessor of the completion of Lessee's work, then Lessee shall be entitled to terminate this Lease upon twenty (20) days prior written notice to Lessor. In the even that Lessor is able to complete its work and obtain all necessary governmental approval and sign-offs during this twenty (20) day period, then the notice of termination shall automatically be deemed revoked. Lessee's rights to terminate the Lease pursuant to the above provisions is in addition to any and all other remedies, at law or in equity, that Lessee may have.

2. No Other Changes. Except as expressly amended hereby, all other terms and conditions of the Lease shall remain unchanged and in full force and effect.

Executed on the date first above written at Manhattan Beach, California

LESSOR: MANHATTAN CORNERS, LLC  
A California Limited Liability Company

LESSEE: SKECHERS U.S.A., INC  
A Delaware Corporation

By: /s/ Kenneth R. Ziegler  
-----  
KENNETH R. ZIEGLER  
Its: General Manager

By: /s/ Michael Greenberg  
-----  
MICHAEL GREENBERG  
Its: President

By: /s/ Philip G. Paccione  
-----

Its: Vice President

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE is made this 22nd day of October, 2003, by and between ProLogis California I LLC, hereinafter referred to as "Landlord," and Skechers U.S.A., Inc., hereinafter referred to as "Tenant."

WITNESSETH:

WHEREAS, Landlord and Tenant entered into that certain Lease dated April 10, 2001 (the "Lease") for a 763,228 square foot space known and numbered as 4100 E. Mission Blvd., Ontario, CA 91761 (the "Premises");

AND WHEREAS, Landlord is exercising Landlord's Recapture Right and defined in the Lease:

AND WHEREAS, the parties hereto now desire to amend and modify said Lease more fully as hereinafter set forth.

AGREEMENT:

NOW THEREFORE, in consideration of the Premises and the mutual covenants hereinafter contained the parties hereto agree as follows:

1. Effective October 12, 2003, the Premises shall be reduced by 1,391 square feet to a revised approximate size of 761,837 square feet and the approximately six (6) parking stalls in front of Landlord's Office Space shall be allocated to said space.

2. Monthly Base Net Rent shall be adjusted as follows:

October 1, 2003 - October 31, 2003	\$217,264.24
November 1, 2003 - May 31, 2006	\$217,123.57
June 1, 2006 - November 30, 2008	\$236,169.79
December	

1, 2008 - May 31, 2011                      \$251,405.97

3. Effective October 12, 2003, Tenant's proportionate share of the Building and Project shall be 99.82%.

4. Pursuant to Addendum 4 of the Lease, Landlord shall build Landlord's Office Space (see attached Exhibit A) in the recaptured area at its own expense, and all utilities shall be separately metered (except for water and sewer which shall be jointly metered). Landlord agrees to use reasonable efforts to not disrupt Tenant's business while Landlord is constructing Landlord's Office Space, and Tenant agrees to use reasonable efforts not to disrupt Landlord in its construction of Landlord's Office Space.

5. Except as herein amended, the terms and conditions of the Lease and any amendments thereto, shall continue in full force and effect and the lease as amended herein is hereby ratified and affirmed by Landlord and Tenant.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment to lease in multiple counterparts, each of which shall have the force and effect of an original.



TENANT

SKECHERS U.S.A., INC.

By: /s/ DAVID WEINBERG

-----  
Name: David Weinberg

-----  
Title: Executive Vice President  
Chief Financial Officer  
-----

LANDLORD

PROLOGIS CALIFORNIA I LLC

By: /s/ LARRY H. HARMSSEN

-----  
Name: Larry H. Harmsen

-----  
Title: Senior Vice President  
-----

## Subsidiaries of the Registrant

<u>Name of Subsidiary</u>	<u>State/Country of Incorporation/Organization</u>
Skechers By Mail, Inc.	Delaware
Skechers U.S.A., Inc. II	Delaware
Skechers U.S.A. Ltd.	England
Skechers U.S.A. France SAS	France
Skechers U.S.A. Deutschland GmbH	Germany
Skechers S.a.r.l	Switzerland
Skechers Collection LLC	California
Skechers Sport LLC	California
Duncan Investments, LLC	California
Yale Investments, LLC	Delaware
Skechers International	Switzerland
Skechers International II	Switzerland
Skechers USA Iberia, S.L	Spain
Skechers EDC SPRL	Belgium
Skechers USA Benelux, B.V	Netherlands
Skechers USA Canada, Inc.	Canada
Skechers USA Italia S.r.l	Italy
310 Global Brands, Inc.	Delaware

Independent Auditors' Consent

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

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 19, 2004, relating to the consolidated balance sheets of Skechers U.S.A., Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2003, and the related financial statement schedule, which report appears in the December 31, 2003, annual report on Form 10-K of Skechers U.S.A., Inc.

/s/ KPMG LLP

Los Angeles, California  
March 11, 2004

Certification of CEO Pursuant to  
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)  
as Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert Greenberg, Chief Executive Officer of Skechers U.S.A., Inc. certify that:

1. I have reviewed this annual report on Form 10-K Skechers U.S.A., Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

/S/ ROBERT GREENBERG

\_\_\_\_\_  
Robert Greenberg,  
Chief Executive Officer

Certification of CFO Pursuant to  
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)  
as Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002

I, David Weinberg, the Chief Financial Officer of Skechers U.S.A., Inc. certify that:

1. I have reviewed this annual report on Form 10-K Skechers U.S.A., Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

/S/ DAVID WEINBERG

---

David Weinberg,  
Executive Vice President  
and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Skechers U.S.A., Inc. (the "Company") on Form 10-K for the year ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the date indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ ROBERT GREENBERG

---

Robert Greenberg  
Chief Executive Officer  
(Principal Executive Officer)  
March 12, 2004

/S/ DAVID WEINBERG

---

David Weinberg  
Chief Financial Officer  
(Principal Financial and Accounting Officer)  
March 12, 2004

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY THE SECTION 906 HAS  
BEEN PROVIDED TO THE COMPANY AND WILL BE RETAINED BY THE COMPANY AND FURNISHED  
TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.