

# SKECHERS®



## 2019 ANNUAL REPORT





To our Shareholders,

February 2020

2019 was another year of impressive growth as we surpassed \$5 billion in sales, a 12.5 percent increase over the prior year. We also set sales records during each quarter, including our highest quarterly sales to date of \$1.35 billion in the third quarter.

Our annual sales of \$5.22 billion was the result of year-over-year increases of 3.3 percent in our domestic business and 20.2 percent in our international business. For the full year, sales outside the United States represented 57.9 percent of our total, and we continue to believe international markets remain a leading long-term growth driver for our brand.

At the core of our success is our ability to develop a wide range of footwear for active lifestyles that delivers on style, innovation and comfort. We believe our unique and competitive product offering, along with the pervasive marketing we execute, sets us apart from other global brands.

This past year we grew in nearly every market around the world. We accomplished this by strategically broadening our product assortment for men, women and kids and delivering marketing that resonates in global markets while also localizing efforts. We also expanded our distribution—including expanding in growing markets such as India and Mexico, and improved our logistics and operations capabilities, including additional information technology support.

We consistently develop new product, study trends and create technologies that consumers want, need, and demand. We expanded our core offering with the next generation of our walking category—Skechers GOwalk 5; broadened our fit stories by adding Arch Fit and Stretch Fit to our Relaxed Fit, Wide Fit and Classic Fit offerings; updated our heritage classics such as Roadies, D'Lites and Stamina; and added more lightweight sport shoes to our men's, women's and kids' offerings. We also earned numerous running shoe awards in 2019 with the introduction of our innovative Hyper Burst technology.

Our BOBS from Skechers collection grew significantly in 2019, and as a result helped to save the lives of over 345,000 animals during the year. This brings the total lives saved through our partnership with pet focused charities to more than 588,000 and includes donations to animal welfare foundations exceeding \$4.9 million since the program launched in 2015.

Along with these developments, we launched several collaborations with retailers such as Atmos, Urban Outfitters and Opening Ceremony, and with fan favorites Line Friends, Doug the Pug and Felix the Cat, among others—each aimed at creating brand relevance with a younger audience.

As always, we believe that sharing our message of comfort and style, talking to consumers and creating welcoming in-store destinations are essential to our success. In 2019, we developed campaigns to reach our global audience at numerous touch points—on screens in people's hands, in their homes, on metros, in malls and at key outdoor locations. Our brand appeared across subway stations in Shanghai, London and Paris, on massive billboards in Chile and Spain, and along perimeter boards at leading matches in Canada, Denmark and Mexico. We appeared in key issues of fashion magazines and on trend-setting websites around the world. We sponsored the Skechers Performance Los Angeles Marathon and engaged with consumers at other running events, golf tournaments, pop-up shops and animal adoption events around the world.

We have also capitalized on the power of our brand advocates—from influencers posting in Skechers footwear to sports legends Howie Long and Tony Romo appearing in Skechers television advertisements, as well as through print and in-store campaigns in 2019. We also signed Los Angeles Dodgers ace pitcher Clayton Kershaw, who will be training in Skechers shoes, pitching in custom Skechers cleats and appearing in a 360-degree marketing campaign in 2020.

Consumers now also have more opportunities to purchase Skechers since we expanded our reach through more third-party retailers, more e-commerce platforms, and more Skechers retail stores. At year end, we had 3,547 Skechers stores around the world, including 800 Company-owned stores, and new locations in Rome, Warsaw and Delhi as well as DisneyTown Shanghai. Our direct-to-consumer business offers this assortment of product in a setting that represents the Skechers culture: an active lifestyle with a youthful attitude.

To provide for our long-term growth, we continued to invest in the logistics and operations of Skechers. In 2019, this included investments to form a new joint venture in Mexico and to acquire outright our subsidiary in India, to expand capacity at our European distribution center in Belgium, to construct our first distribution center in China and to expand our corporate offices in Manhattan Beach. We also made investments in our information technology and digital platforms. Looking forward, we will continue to strategically invest to develop and enhance our operations for improved efficiency and growth.

Additional achievements in 2019 include the reduction of plastics in our packaging to less than seven percent, of which 100% is recyclable. We are examining further opportunities to reduce our impact on the environment, including the development of our new corporate offices in Manhattan Beach, which are planned to be LEED certified.

All of these efforts were recognized by our colleagues in the industry. In 2019, we were named Company of the Year by *Footwear Plus* magazine, an accomplishment we have won seven times before, and received the Excellence in Children's Award from the same publication.

Our continued momentum and success throughout 2019 are confirmation of the strength and demand for our products around the world. We are growing our direct-to-consumer business and building a vast, complementary network of retail partners around the world. We could not be prouder of our accomplishments this past year.

But, as we write this, the Coronavirus and its impact on our business and employees remains a concern. While determining the full short-term impact to our business is difficult, and the circumstances are challenging, the Skechers brand is strong worldwide, including in those markets most affected by the health crisis.

We have proven over the years to be very flexible and nimble when it comes to challenges in the market. We believe that given the strength of our brand, our ability to navigate in challenging environments and our investments in our future, we will continue to drive demand for our footwear, create more lasting impressions through marketing, and set more sales records.



Robert Greenberg  
Chairman and CEO



Michael Greenberg  
President



This annual report contains forward-looking statements that are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, without limitation, our future domestic and international growth, financial results and operations including expected net sales, margins, cash flow and earnings, liquidity and capital resources, inventory levels and orders, our development of new products, future demand for our products, our planned domestic and international expansion and opening of new stores and our advertising and marketing initiatives. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or simply state future results, performance or achievements of our company, and can be identified by the use of forward-looking language such as "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 could 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 expectations or forecasts, become inaccurate. Please see "Special Note on Forward-Looking Statements" on page one of our 2019 annual report on Form 10-K for a discussion of some of the risk factors that could cause actual results to materially differ. The risks included there are not exhaustive. We operate in a very competitive and rapidly changing environment. New risks 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 the 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, you should not place undue reliance on forward-looking statements as a prediction of actual results. Moreover, reported results should not be considered an indication of our future performance.

**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, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-14429

**SKECHERS U.S.A., INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**95-4376145**

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

**228 Manhattan Beach Blvd.,  
Manhattan Beach, California 90266  
(310) 318-3100**

(Address, including zip code, and telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

**Class A Common Stock, par value \$0.001 per share**

(Title of each class)

**SKX**

(Trading symbol)

**New York Stock Exchange**

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

**None**

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of June 30, 2019, the aggregate market value of the voting and non-voting Class A and Class B Common Stock held by non-affiliates of the registrant was approximately \$4.2 billion based upon the closing price of \$31.49 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 February 17, 2020: 134,497,828.

The number of shares of Class B Common Stock outstanding as of February 17, 2020: 22,407,803.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Definitive Proxy Statement issued in connection with the 2020 Annual Meeting of the Stockholders of the registrant are incorporated by reference into Part III.

**SKECHERS U.S.A., INC. AND SUBSIDIARIES**  
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

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This annual report includes our trademarks including Skechers<sup>®</sup>, Skechers Performance<sup>™</sup>, Skechers GOrun<sup>®</sup>, Skechers GOwalk<sup>®</sup>, Skechers GOgolf<sup>®</sup>, Skechers GOtrain<sup>®</sup>, Skechers on-the-GO<sup>®</sup>, <sup>®</sup>, <sup>®</sup>, <sup>®</sup>, <sup>®</sup>, Skechers Cali<sup>®</sup>, Skecher Street<sup>®</sup>, Skechers USA<sup>®</sup>, Skechers Active<sup>™</sup>, Skechers Sport Active<sup>™</sup>, Skechers Work<sup>™</sup>, Mark Nason<sup>®</sup>, D'Lites<sup>®</sup>, DLT-A<sup>®</sup>, BOBS<sup>®</sup>, Energy Lights<sup>®</sup>, Skech-Air<sup>®</sup>, Twinkle Toes<sup>®</sup>, Z-Strap<sup>®</sup>, Mega-Flex<sup>®</sup>, Luminators<sup>®</sup>, Heart Lights<sup>™</sup>, Relaxed Fit<sup>®</sup>, Arch Fit<sup>™</sup>, Ultra GO<sup>®</sup>, Hyper Burst<sup>®</sup>, Skechers Memory Foam<sup>™</sup>, and Air-cooled Memory Foam<sup>®</sup>, each of which is our property. This report contains additional trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

## **SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS**

This annual report on Form 10-K contains forward-looking statements that are made pursuant to the safe harbor provisions of the Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements with regards to future revenue, projected 2020 operating results, earnings, spending, margins, cash flow, orders, expected timing of shipment of products, inventory levels, future growth or success in specific countries, categories or market sectors, continued or expected distribution to specific retailers, liquidity, capital resources and market risk, 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 can be identified by the use of forward-looking language such as “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. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected in forward-looking statements, and reported results shall not be considered an indication of our company’s future performance. Factors that might cause or contribute to such differences include:

- the recent coronavirus outbreak and its adverse impact on our operations in China and our business, sales and results of operations around the world;
- global economic, political and market conditions, including the challenging consumer retail market in the United States;
- our ability to maintain our brand image and to anticipate, forecast, identify, and respond to changes in fashion trends, consumer demand for the products and other market factors;
- our ability to remain competitive among sellers of footwear for consumers, including in the highly competitive performance footwear market;
- our ability to sustain, manage and forecast our costs and proper inventory levels;
- the loss of any significant customers, decreased demand by industry retailers and the cancellation of order commitments;
- our ability to continue to manufacture and ship our products that are sourced in China and Vietnam, which could be adversely affected by various economic, political, health or trade conditions, or a natural disaster in China or Vietnam;
- our ability to predict our revenues, which have varied significantly in the past and can be expected to fluctuate in the future due to a number of reasons, many of which are beyond our control; and
- sales levels during the spring, back-to-school and holiday selling seasons.

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely impact our business, financial condition and results of operations. Moreover, we operate in a very competitive and rapidly changing environment, and new risk factors emerge from time to time. 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 inherent and changing risks and uncertainties, investors should not place undue reliance on forward-looking statements, which reflect our opinions only as of the date of this annual report, as a prediction of actual results. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document, except as otherwise required by reporting requirements of applicable federal and states securities laws.

## PART I

### **ITEM 1. BUSINESS**

We were incorporated in California in 1992 and reincorporated in Delaware in 1999. Throughout this annual report, we refer to Skechers U.S.A., Inc., a Delaware corporation, its consolidated subsidiaries and certain variable interest entities (“VIEs”) of which it is the primary beneficiary, as “we,” “us,” “our,” “our company” and “Skechers” unless otherwise indicated. Reference in this annual report to “Sales” refers to Skechers’ net sales reported under generally accepted accounting principles in the United States. Our internet address is [www.skechers.com](http://www.skechers.com). Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Form 3’s, 4’s and 5’s filed on behalf of directors, officers and 10% stockholders, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on our corporate website, [www.investors.skechers.com](http://www.investors.skechers.com), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission (“SEC”). You can learn more about us by reviewing such filings at [www.investors.skechers.com](http://www.investors.skechers.com) or at the SEC’s website at [www.sec.gov](http://www.sec.gov).

#### GENERAL

We design and market Skechers-branded lifestyle footwear for men, women and children, and performance footwear for men and women under the Skechers Performance brand name. We also design and market men’s and women’s Skechers branded lifestyle apparel, and license the Skechers brand to others for accessories, leather goods, eyewear and scrub manufacturers, among others. Skechers footwear reflects a combination of innovation, style, comfort, quality and value that appeals to a broad range of consumers. Our product offering is sold through department and specialty stores, athletic and independent retailers, boutiques and internet retailers. In addition to wholesale distribution, our footwear is available on our direct-to-consumer websites and our own retail stores. As of February 1, 2020, we owned and operated 107 concept stores, 171 factory outlet stores and 219 warehouse outlet stores in the United States, and 199 concept stores, 93 factory outlet stores, and 10 warehouse outlet stores internationally. Our objective is to profitably grow our operations worldwide while leveraging our recognizable Skechers brand through our diversified product lines, innovative advertising and diversified distribution channels.

We seek to offer consumers a vast array of footwear that satisfies their active, casual, dress casual and athletic footwear needs. Our core consumers are style-conscious men and women attracted to our relevant brand image, fashion-forward designs, affordable and comfortable product, as well as athletes and fitness enthusiasts attracted to our performance footwear. 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. Further, we offer children a unique collection of footwear designed just for them, including those with innovative light technology.

We believe that brand recognition is an important element for success in the footwear business. We have aggressively marketed our brands through comprehensive marketing campaigns for men, women and children. During 2019, the Skechers brand was supported by print, television, digital, radio and outdoor campaigns targeted to men and women, boys and girls; marathons and other athletic events for Skechers Performance; and grass roots and donation events for BOBS from Skechers divisions. To further drive recognition, we have enlisted numerous celebrities, former and current athletes, and influencers to appear in our campaigns, including globally-known recording artist Camila Cabello; sports legends Clayton Kershaw, Sugar Ray Leonard, Howie Long, Tony Romo, and David Ortiz; and television personality and actress Brooke Burke. For the Skechers Performance Division, we also had the following athletes appear in our marketing campaigns: professional golfers Matt Kuchar, Brooke Henderson, Russell Knox, Wesley Bryan, Billy Andrade, and Colin Montgomerie; triathlete Lionel Sanders; plus, elite runners Meb Keflezighi, Weldon Kirui and Edward Cheserek.

Since 1992, when we introduced our first line, Skechers USA Sport Utility Footwear, we have expanded our product offering and grown our sales while substantially increasing the breadth and penetration of our account base. Our men’s, women’s and children’s product lines benefit from the Skechers reputation for styling, quality, comfort, innovation and affordability. Our performance lines benefit from our marketing, product development, technology, and feedback from athletes and wear testers. To promote innovation and brand relevance, we manage our product lines through separate dedicated 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 LINES

We offer a wide array of Skechers-branded footwear lines for men, women and children, many of which have categories that have developed into well-known names. Most of these categories are marketed and packaged with unique shoe boxes, hangtags and in-store support, and are generally sold through department stores, footwear specialty stores, athletic retailers, Skechers retail stores as well as [www.skechers.com](http://www.skechers.com) and numerous online accounts. Management evaluates segment performance based primarily on sales and gross margins; however, sales and costs are not allocated to specific product lines.



In addition, Skechers designs and markets a collection of lifestyles apparel for men, women and kids. The collection features the same Skechers characteristics that consumers around the world have come to expect from the brand—comfort, style, innovation and quality at a value. The activewear garments are designed to directly coordinate with the brand’s footwear initiatives. The Skechers apparel collection is sold at Skechers retail stores, to our domestic wholesale accounts and select international partners.

### ***Lifestyle Brands***

***Skechers USA.*** Our Skechers USA category for men and women includes: (i) Dress Casuals and Modern Comfort, (ii) Casuals, (iii) Casual Athletic, and (iv) seasonal sandals and boots. Styles are available in several fits, including Classic Fit, Relaxed Fit, Wide Fit and Extra Wide.

- The Dress Casuals category for men is comprised of basic “black and brown” men’s shoes that feature shiny leathers and dress details, but may utilize traditional or lugged outsoles as well as value-oriented materials. The Dress Casuals line, which is also referred to as the Modern Comfort collection for women, is comprised of trend-influenced, stylized boots and shoes, which may include leather uppers, shearling or faux fur lining or trim, and water-resistant materials.
- The Casuals line for men and women is defined by lugged outsoles and utilizes value-oriented and leather materials in the uppers. For men, the Casuals category includes “black and brown” boots, shoes and sandals that generally have a rugged urban design—some with industrial-inspired fashion features. For women, the Casuals category includes basic “black and brown” oxfords and slip-ons, lug outsole and fashion boots, and casual sandals. We design and price both the men’s and women’s categories to appeal primarily to younger consumers with broad acceptance across age groups.
- Our Casual Athletic line is comprised of low-profile, sport-influenced streetwear targeted to trend-conscious young men and women. The outsoles are primarily rubber and are sometimes adopted from our men’s Sport and women’s Active lines. This collection features leather or nubuck uppers, but may also include mesh.
- Our seasonal sandals and boots for men and women are designed with many of our existing and proven outsoles, stylized with basic or core uppers as well as fresh looks. These styles are generally made with quality leather uppers, but may also be in canvas or fabric for sandals, and water-resistant materials, faux fur and sherpa linings for boots.

***Skechers Sport.*** Our Skechers Sport footwear collection for men and women includes: (i) lightweight sport athletic lifestyle products, (ii) classic athletic-inspired styles, (iii) sport sandals and booties, and (iv) retro and fashion. Many Skechers Sport styles are enhanced with comfort features such as Skechers Air-Cooled Memory Foam™ insoles, lightweight designs, flexible outsoles and soft uppers such as bio-engineered mesh, soft knit fabrics and stretchable woven materials. Known for bright, multi-colored and solid basic-colored uppers, Skechers Sport is distinguished by its technical performance-inspired looks; however, we generally do not promote the technical performance features of these shoes. Styles are available in several fits including Classic Fit, Relaxed Fit, Arch Fit, Wide Fit and Extra Wide.

- Our lightweight sport athletic product is designed with comfort and flexibility in mind. Careful attention is devoted to the cushioning, weight, design and construction by using innovative materials and technologies including Skech-Knit uppers. Designed as a versatile, trend-right athletic shoe suitable for all-day wear, the product line features styles in both bright and classic athletic colors.
- Classic Skechers styles are core-proven looks that continue to be strong performers. With all-day comfort and durable rubber tread, these shoes are intended to be a mainstay of any footwear collection. Many of the designs are in white, black and natural shades, with some athletic accents. The uppers are designed in leather, suede and nubuck.
- Our sport sandals and booties are primarily designed from existing Skechers Sport outsoles and may include many of the same sport features as our sneakers with the addition of new technologies geared toward making comfortable seasonal footwear.
- Retro and fashion styles feature throwback fashionable profiles with sport-inspired features and trend-right silhouettes. At the forefront is the Skechers Energy and the Skechers D’Lites® collection with iconic Skechers sneaker looks updated with contemporary Skechers Air-Cooled Memory Foam insoles for total comfort. Collaborations of our fashion collections with popular character brands like Line Friends and BT21 as well as specialized retailers generates buzz while exposing the brand to new demographics. Additionally, the Skechers Premium Heritage Limited Edition collection has featured five-packs of luxe Skechers Energy and Skechers D’Lites® styles crafted with high-end materials and on-trend embellishments available in select markets.

***Skechers Active and Skechers Sport Active.*** A natural companion to Skechers Sport, Skechers Active and Skechers Sport Active have grown from a casual everyday line into two complete lines of sneakers and casual sneakers for active females of all ages. The Skechers Active line, with lace-ups, Mary Janes, sandals and open back styles, is available in a multitude of colors as well as solid white or black, in knits, fabrics, leathers and meshes, and with various closures — traditional laces, zig-zag and cross straps, among others. The Skechers Sport Active line includes low-profile, lightweight, flexible and sporty styles, many of which have Skechers Air-Cooled Memory Foam™.

***Skechers Cali.*** This collection typifies the California lifestyle with beach-inspired colors, vivid prints and funky accents. This line of hot summer-styled looks features an eclectic collection of flip flops, sandals, and wedges all perfect for young women everywhere who love the sun.

***Skecher Street™.*** A bold urban street-inspired sneaker collection for millennials and young women, Skecher Street™ delivers sneakers, platforms and fashion trainers with premium metallic finishes, sophisticated takes on glimmer embellishments and playful embroidered pairs with star and graphic treatments. Skecher Street™ styles pair the latest trends with comfort features including Air Cooled Memory Foam insoles, the brand's patented Rise Fit technology and contoured barefoot liners.

***BOBS from Skechers.*** The core of the BOBS from Skechers line is its vast assortment of colorful, playful and classic espadrilles. The line now also includes vulcanized and sport looks, sandals and comfortable faux fur styles for home. Many styles also feature Skechers Memory Foam.

- The BOBS classic espadrille collection is designed in basic colors with canvas, tweed, crochet and boiled wool uppers, suede and patterned fabrics. It includes BOBS for Dogs' and BOBS for Cats' animated animal and mosaic styles, as well as looks featuring legendary characters like Garfield, Scooby Doo and Felix the Cat.
- BOBS vulcanized, sport and sandal styles have a very youthful and California lifestyle appeal. Designed with canvas uppers and jersey fabrics, the line features classic retro designs, fresh colors and materials.
- BOBS faux fur styles are available in classic, patterned and mosaic animal designs with Skechers Memory Foam insoles and outsoles suitable for home and the outdoors.

For each pair of specially packaged BOBS from Skechers footwear, select apparel items and pet accessories sold in the United States in 2019, twenty-five cents was donated to Petco Foundation to help save the lives of dogs and cats in America's shelters – Donations for this program totaled more than \$1.5 million which helped more than 371,000 shelter pets in the United States, of which more than 348,000 were saved through pet adoptions. Since BOBS launched its mission to help shelter animals in 2015, the brand has raised over \$5.0 million and helped more than 954,000 animals, including more than 588,000 animals have been saved to date.

Skechers also continues to donate new shoes to children in need through the BOBS program. Since 2011, more than 15.2 million pairs of new kids' shoes have been donated, including approximately 289,000 pairs in 2019. The charitable shoes are primarily donated to charity partner Soles4Souls, which then donates the shoes to various reputable charity organizations in the United States and around the world.

***Mark Nason.*** Inspired by classic rock and roll and its trends, the Mark Nason collection originally started with Italian crafted exotic offerings of boots and accessories. The high-end collection has evolved into Mark Nason Los Angeles, an expanded offering of dress, casual and active styles for style-conscious men, with many featuring Premium Relaxed Fit construction and Memory Foam Lux insoles for enhanced comfort.

## ***Performance Brands***

***Skechers Performance.*** Skechers Performance is a collection of technical footwear designed with a focus on a specific activity to maximize performance and promote natural motion. Developed by the Skechers Performance Division, the footwear utilizes the latest advancements in materials and innovative design, including ultra-lightweight Resalyte or the latest Hyper Burst midsole compounds for comfort and an outsole that delivers responsive feedback.

- ***Skechers GORun.*** Skechers GORun is a collection of lightweight, flexible running shoes that feature a midfoot strike design for efficient running and was recognized with 12 editorial awards in 2019. Skechers Max Cushioning offers maximized Ultra GO cushioning for extreme comfort. Skechers GORun Forza offers extra stability on long runs. The Skechers GOMeb collection includes the high-performance racing and training shoes worn by elite marathon runner Meb Keflezighi. Select styles in the latest generation of running products feature an innovative Hyper Burst midsole foam. These flagship lines, as well as other Skechers GORun products, are marketed to serious runners and recreational runners alike, and are available in running stores as well as other retailers. Special limited-edition collections of key running styles are released to commemorate major marathon events in cities like New York, Houston and Los Angeles.
- ***Skechers GOWalk.*** Skechers GOWalk is designed for walking and casual wear, and offers performance features in a comfortable casual slip-on or lace-up sneaker. The product line features a lightweight and flexible design to promote

natural foot movement when walking as well as more advanced performance technologies including a high-rebound GogaMax insole, comfortable 5GEN cushioning and Memory Form Fit for a custom-fit experience. Skechers GOwalk Joy adds knitted upper sneaker styles to the collection. Skechers on-the-GO footwear fuses iconic designs and premium materials with Skechers Performance technologies for comfort and style.

- ***Skechers GOtrain.*** Skechers GOtrain is designed for the gym and features a wider forefoot and extended outriggers for maximum stability and control at lateral and medial strike points. This shoe is an all-encompassing trainer that meets the need of intense and rigorous workouts.
- ***Skechers GOtrail.*** The Skechers GOtrail collection features the performance materials and innovations found in our running shoes with rugged designs that can protect against impact during all-terrain runs.
- ***Skechers GO GOLF.*** Skechers GO GOLF is designed for the golf course and offers a zero heel drop design, which keeps feet in a neutral position that is low to the ground to promote a solid foundation while playing golf. A grip outsole helps with traction control and 5GEN cushioning delivers comfort. Styles in the Skechers GO GOLF Pro line, worn by PGA golfers Matt Kuchar, Brooke Henderson and a roster of other golf pros, also offers H2GO Shield waterproof protection and features replaceable soft spikes on the outsole.

### ***Skechers Kids***

The Skechers Kids line includes: (i) Skechers Kids, which is a range of infants', toddlers', boys' and girls' boots, shoes, high-tops, sneakers and sandals, (ii) Skechers' athletic-inspired sneakers with Memory Foam, (iii) Twinkle Toes, (iv) character supported collections, (v) Lighted footwear, and (vi) the Shaq by Skechers basketball collection.

- The Skechers Kids line is inspired by our many adult styles and includes embellishments or adornments such as fresh colors and fabrics. Some of these styles are also adapted for toddlers with softer, more pliable outsoles and for infants with soft, leather-sole crib shoes. The line's Fashion Hi-Tops subcategory offers trend-forward high-top looks designed to appeal to fashion-conscious young girls.
- Skechers' athletic-inspired collection includes Memory Foam sneakers designed with many of the same meshes, knits and weaves as our adult styles, such as Skechers Sport in bright colors and patterns, Skechers GOrun and Skech-Air athletic sneakers, which have a unique visible air-cushioned outsole and a gel-infused memory foam insole. The collection is designed to offer the latest comfort innovations and appeal both to younger kids as well as tweens transitioning to adult shoes.
- Twinkle Toes by Skechers is a line of girls' sneakers and boots that feature bejeweled toe caps and brightly designed uppers. Some styles also include lights. The product line is marketed with the character Twinkle Toes. Flip Kicks offer a reversible fun sequin design on the side.
- Along with Twinkle Toes, we market several of our collections with characters that resonate with younger consumers. Skechers Super Z-Strap is a line of athletic-styled sneakers with an easy "z"-shaped closure system marketed with the character Z-Strap; Mega Flex is a line of athletic sneakers with heel springs or articulated blades for boys based on a robot character; and Mega Craft offer a fun, block-like design inspired by video games.
- Skechers' lighted footwear collection for boys and girls includes multiple categories. S-Lights and Heart Lights styles combine patterns of lights on the outsoles and sides of the shoes, while Energy Lights and Ice Lights feature a rechargeable lighted outsole that can be set to a variety of colors and light patterns. Luminators feature an innovative illuminated mesh fabric upper for a bolder look.
- Shaq by Skechers is a collection of court-ready kids' basketball shoes developed in collaboration with basketball legend Shaquille O'Neal.

Skechers Kids lines include shoes that are designed as "takedowns" of their adult counterparts, allowing the younger consumers the opportunity to wear 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 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 that we have established in the children's footwear market. Each Skechers Kids line is marketed and packaged separately with a distinct shoe box.

### ***Skechers Work***

Skechers Work offers a complete line of men's and women's casuals such as field boots, hikers and athletic shoes, many of which may also include Skechers Memory Foam™. The Skechers Work line includes athletic-inspired, casual safety toe and non-slip

safety toe categories that may feature lightweight aluminum safety toe, electrical hazard and slip-resistant technologies, as well as breathable, seam-sealed waterproof membranes. Designed for men and women working in jobs with certain safety requirements, these durable styles are constructed on high-abrasion, long-wearing soles, and feature breathable lining, oil- and abrasion-resistant outsoles offering all-day comfort and prolonged durability. The Skechers Work line incorporates design elements from other Skechers men's and women's lines. The uppers are comprised of high-quality leather, nubuck, trubuck and durabuck. Our safety toe athletic sneakers, boots, hikers and casuals are ideal for environments requiring safety footwear, and offer comfort and safety in dry or wet conditions. Our slip-resistant boots, hikers, athletics, casuals, clogs and comfortable sneakers are ideal for the service industry. The Skechers Healthcare Pro SR Series offers slip and stain resistant footwear with air-cooled memory foam in a wide range of colors for medical professionals. Our safety toe products have been independently tested and certified to meet ASTM standards, and our slip-resistant soles have been tested pursuant to the Mark II testing method for slip-resistance. Skechers Work is typically sold through department stores, athletic footwear retailers and specialty shoe stores, and is marketed directly to consumers through business-to-business channels.

## PRODUCT DESIGN AND DEVELOPMENT

Our principal goal in product design is to develop innovative, comfortable, stylish, quality footwear at a reasonable price for the entire family. Our footwear is designed for active lifestyles and consumers needing comfort in their footwear from fashionable 18- to 34-year-olds, to a broader base of 5- to 50-year-olds, and even an exclusive selection for infants and toddlers. Designed by the Skechers Performance Division, our performance products are for professional and recreational athletes who want a technical shoe that performs under the demands of competition.

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 fashion trends into stylish, quality footwear at a reasonable price by analyzing and interpreting current and emerging lifestyle trends. Lifestyle trend information is compiled and analyzed by our designers in various ways, including reviewing and analyzing pop culture, clothing, and trend-setting media; traveling to domestic and international fashion markets to identify and confirm current trends; consulting with our retail and direct-to-consumer customers for information on current retail selling trends; participating in major footwear trade shows to stay abreast of popular brands, fashions and styles; and subscribing 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 our brands' images.

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, who report to our senior design executives and focus on each of the men's, women's and children's categories. In addition, we utilize outside design firms on an item-specific basis to supplement our internal design efforts. The design process is extremely collaborative, as 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 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 embellishments, which are arrived at after close consultation with our production department. Prototype blueprints and specifications are created and forwarded to our manufacturers for design prototypes. 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. We also occasionally order limited production runs that may initially be tested in our concept stores with our test and react program, which gives us further insight into the strength of particular styles and allow our design teams to quickly modify and refine our designs. Generally, the production process can take six to nine months from design concept to commercialization.

For disclosure of product design and development costs during the last three fiscal years, see Note 1 - The Company and Summary of Significant Accounting Policies in the Consolidated Financial Statements included in this annual report.

## SOURCING

**Factories.** Our products are produced by independent contract manufacturers located primarily in China and Vietnam. We do not own or operate any manufacturing facilities. We believe that the use of independent manufacturers substantially increases our production flexibility and capacity, while reducing capital expenditures and avoiding the costs of managing a large production work force. For disclosure of information regarding the risks associated with having our manufacturing operations abroad and relying on independent contract manufacturers, see the relevant risk factors under Item 1A of this annual report.

When possible, we seek to use manufacturers that have previously produced our footwear, which we believe enhances continuity and quality while controlling production costs. We source product for styles that account for a significant percentage of our sales from at least five different manufacturers. During 2019, five of our contract manufacturers accounted for approximately 40.6% of total purchases. One manufacturer accounted for 16.0%, and another accounted for 7.3% of our total purchases. To date, we have not experienced difficulty in obtaining manufacturing services or with the availability of raw materials.

We finance our production activities in part through the use of interest-bearing open purchase arrangements with certain of our contract manufacturers. These facilities currently bear interest at a rate between 0.0% and 0.5% for 30- to 60-day financing, depending on the factory. We believe that the use of these arrangements affords us additional liquidity and flexibility. We do not have any long-term contracts with any of our manufacturers. However, we have long-standing relationships with many of our contract manufacturers and believe our relationships to be good.

We closely monitor sales activity after initial introduction of a product in our concept stores and on-line to determine whether there is substantial demand for a 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, while less popular styles can be discontinued after a limited production run. We believe that sales in our concept stores can also help forecast sales in national retail stores, and we share this sales information with our wholesale customers. Sales, merchandising, production and allocations management analyze historical and current sales, and market data from our wholesale account base and our own retail stores to develop an internal product quantity forecast that allows us to better manage our future production and inventory levels. For those styles with high sell-through percentages, we maintain an in-stock position to minimize the time necessary to fill customer orders by placing orders with our manufacturers prior to the time we receive customers' orders for such footwear.

**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 of all production is performed in the United States by our in-house production department and in Asia through a 355-person staff working from our offices in China and Vietnam. 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 convicted, forced nor indentured labor (as defined under U.S. law), nor child labor (as defined by law in 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. We are committed to humane conditions for every individual who produces our product from beginning to end. We partner with factories that ensure humane conditions for their employees and we engage in routine auditing and monitoring procedures to ensure that those who contribute to our product are treated with the civility and respect they deserve.

**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 not only finished goods 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 and Vietnam 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 manufacturers, 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.

**Sustainability.** We have worked to make our packaging more sustainable for the more-than-189 million pairs of Skechers that consumers purchase every year. Since 2016, we've reduced our products' packaging plastics by 85% down to 10% of our foot forms, and have made all remaining plastics completely recyclable. Many facilities can now recycle 94% of Skechers-branded shoeboxes, and all of our foot forms and tissue paper packaging is now also recyclable and printed with soy-or water-based ink. We are proud to have 99% of our shoes packaged in shoeboxes that meet the FSC® standard for responsible resources – and we are continually looking out for new ways to improve with green materials, regular assessments, and assurance that our items are FSC-certified, recycled or ethically harvested.

## ADVERTISING AND MARKETING

With a marketing philosophy of “Unseen, Untold, Unsold,” we take a targeted approach to marketing to drive traffic, build brand recognition and properly position our diverse lines within the marketplace. Senior management is directly involved in shaping our image and the conception, development and implementation of our advertising and marketing activities. Our marketing plan has an omni-channel approach as we utilize print, outdoor, television, radio, and digital, along with public relations, influencers and social media, promotions, events and in-store. In addition, we utilize celebrity endorsers in some of our advertisements. We also believe our websites and trade shows are effective marketing tools to both consumers and wholesale accounts. We have historically budgeted advertising as a percentage of projected sales.

The majority of our advertising is conceptualized by our in-house design team; however, some campaigns are designed in select international markets to reflect local culture. We believe that our advertising strategies, methods and creative campaigns are directly related to our success. We generally seek to build and drive brand awareness, create purchase intent and inform the consumer about new innovations and lines. Our campaigns are designed to provide merchandise flexibility and to facilitate the brand's direction.

**Brand Ambassadors.** To further build brand awareness and influence consumer spending, we have selectively signed endorsement agreements with celebrities whom we believe will reach new markets. In 2019, our Skechers lifestyle endorsees included Camila Cabello and David Ortiz, as well as Brooke Burke, Sugar Ray Leonard, Howie Long, and Tony Romo. Additionally, we announced an agreement with Dodgers pitcher Clayton Kershaw to appear in marketing campaigns beginning in 2020, as well as to collaborate on performance training shoes and custom cleats for him to wear on the mound. Our 2019 Skechers Performance Division endorsees included elite runners Meb Keflezighi, Weldon Kirui, Lionel Sanders and Edward Cheserek, and professional golfers Matt Kuchar, Brooke Henderson, Billy Andrade, Russell Knox, Wesley Bryan and Colin Montgomerie. Additionally, several international markets signed local ambassadors for marketing campaigns. Along with these global ambassadors, we also had local or regional ambassadors including pop groups for numerous countries in Asia. 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.

**Print.** With a targeted approach, our print ads appear in specialized sport, popular fashion, lifestyle and pop culture publications in the United States and around the world.

**Television.** Our television commercials are produced both in-house and through producers that we have utilized in the past who are familiar with our brands. In 2019, we developed commercials for men, women and children for our Skechers brands, including our animated spots for kids, as well as live action commercials. We also had commercials for our golf collection lines that featured our elite golfers, and for our lifestyle lines that feature our team of ambassadors. We have found these to be cost-effective ways to advertise on key national and cable programming during high-selling seasons. Many of our television commercials are translated into multiple languages and aired in numerous markets around the world. Further, select markets have also created television commercials specific to their market with local celebrities.

**Outdoor.** To reach consumers where they shop and in high-traffic areas as they travel to and from work, at times we execute outdoor campaigns that may include mall and telephone kiosks, billboards, transportation systems and airports, and the covering of large stadiums and buildings around the world. In many markets these now include LED billboards that broadcast our commercials. In addition, we advertised on perimeter boards at soccer matches and professional sporting events in Japan, Europe, Latin America and Canada. We believe these mediums are an effective and efficient way to target specific consumers.

**Public Relations.** Our public relations objectives are to accurately position Skechers as a leading footwear brand within the business, general news and trade publications as well as to secure product placement in key magazines and television shows. We have been featured in leading business publications with interviews of our executives discussing our business strategy and position within the footwear market. We have amassed an array of prominent product placements in leading fashion, lifestyle, sports and pop culture magazines and websites.

**Social Media.** With the goal of engaging with consumers, showcasing our product in relatable settings and relaying the latest news, we have built communities on Facebook, Twitter, Instagram, and YouTube in the United States and in countries around the world where our product is sold. To promote both our lifestyle and performance brands, we have developed several unique channels under Skechers, Skechers Performance, BOBS from Skechers and Mark Nason Los Angeles. The online communities also connect consumers around the world, allowing an easy glimpse into trends and events in other countries. Additionally, many countries also utilize platforms specific to their market, such as Line in Japan and Weibo in China. We have also placed our footwear on the feet of trend-setting influencers, celebrities and their families, sharing this content across our channels.

**Promotions and Events.** By applying creative sales techniques via a broad spectrum of media, our marketing team seeks to build brand recognition and drive traffic to Skechers retail stores, websites and our retail partners' locations. Skechers' promotional strategies have encompassed in-store specials, charity events, product tie-ins and giveaways and collaborations with national retailers and radio stations. In 2019, we appeared at walks and at numerous marathons in Boston, New York, Santiago, Mumbai, Shanghai, and other cities with Skechers Performance branded booths to allow runners the ability to try on and often buy our products. In 2019, the Skechers Performance Division was the title sponsor of the Skechers Performance Los Angeles Marathon, footwear and apparel sponsor for the Houston Marathon, and footwear sponsor for Ironman Pucon in Chile. Additionally, for golf, Skechers was footwear sponsor for the Charles Schwab Cup PGA Championship in the United States, sponsored the Solheim Cup European team and collaborated on an exclusive style for the Evian Championship in France. These were among the many Skechers-sponsored events worldwide. Our products were made available to consumers directly or through key accounts at many of these events. In addition, we partnered with key accounts by donating BOBS footwear to children in need at donation events in cities throughout the United States, which built our relationships with these accounts as well as the local communities. As part of our BOBS for Dogs charity program we also partnered with the Petco Foundation and donated more than \$1.5 million in 2019 and have raised more than \$5.0 million helping and saving animals to date.

**Visual Merchandising.** Our in-house visual merchandising department supports wholesale customers, distributors and our retail stores by developing displays that effectively leverage our products at the point of sale. Our point-of-purchase display items include signage, graphics, displays, counter cards, banners and other merchandising items for each of our brands. These materials mirror the look and feel of each brand to reinforce the image and draw consumers into stores.

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 through Skechers brand displays. Our VMC's communicate with and visit our wholesale customers on a regular basis to aid in proper display of our merchandise. They 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.

**Trade Shows.** To showcase our diverse products to footwear buyers in the United States and Europe and to distributors around the world, we regularly exhibit at leading trade shows. Along with specialty trade shows, we exhibit at FFANY, The Licensing Show and Outdoor Retailer in the United States; MICAM, Gallery and ISPO in Europe; and other international shows.

**Digital.** In 2019, we continued marketing campaigns on YouTube, Facebook and Instagram, and launched digital campaigns in many international markets to coincide with key selling time periods. We promote and sell our products through our direct-to-consumer sites in the United States, Canada, United Kingdom, Germany, Spain, Chile, India, Mexico, and China, among other countries, as well as through non-ecommerce sites in many other countries. Our websites are a venue for dialog and feedback from customers about our products, which enhances the Skechers brand experience while driving sales through all our retail channels.

## PRODUCT DISTRIBUTION CHANNELS

We have three reportable segments: domestic wholesale sales, international wholesale sales, and direct-to-consumer sales. In the United States, our products are available through a network of wholesale customers comprised of department, athletic and specialty stores and online retailers. Internationally, our products are available through wholesale customers in more than 175 countries and territories via our global network of distributors, in addition to our subsidiaries in Asia, Europe, Canada, Central America and South America. Skechers owns and operates retail stores both domestically and internationally through three integrated retail formats—concept, factory outlet and warehouse outlet stores. Each of these channels serves an integral function in the global distribution of our products. In addition, 18 distributors and 50 licensees have opened and operate 727 distributor-owned or -licensed Skechers retail stores and 1,666 licensee-owned Skechers retail stores, respectively, in over 175 countries as of December 31, 2019.

**Domestic Wholesale.** We distribute our footwear through the following domestic wholesale distribution channels: department stores, specialty stores, athletic specialty shoe stores, independent retailers, and internet retailers. While department stores and specialty retailers are the largest distribution channels, we believe that we appeal to a variety of wholesale customers, many of whom may operate stores within the same retail location due to our distinct product lines, variety of styles and the price criteria of their specific 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 and new customer retail locations.

In an effort to provide knowledgeable and personalized service to our wholesale customers, the sales force is segregated by product line, each of which is headed by a vice president or national sales manager. Reporting to each sales manager are knowledgeable account executives and territory managers. The vice presidents and national sales managers report to our senior vice president of sales. All of our vice presidents and national 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 sells competing products.

We believe that we have developed a loyal account base through exceptional customer service. We believe that our close relationships with these accounts help us to maximize their retail sell-through. Our marketing teams work with our wholesale customers to ensure that our merchandise and marketing materials are properly presented. Sales executives and merchandise personnel work closely with accounts to ensure that appropriate styles are purchased for specific accounts and for specific stores within those accounts, as well as to 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 customers. 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.

***Direct-to-Consumer.*** We pursue our direct-to-consumer strategy through our integrated retail formats: ecommerce, concept stores, factory outlet and warehouse outlet stores. Our formats enable us to promote the full Skechers product offering in an attractive environment that appeals to a broad group of consumers. In addition, most of our retail stores are profitable and have a positive effect on our operating results.

We review all of our stores for impairment annually or more frequently if events or changes in circumstances require it. We assess the cash flows for each of our retail stores to evaluate the potential impairment of the fixed assets and leasehold improvements. If the assets are considered to be impaired, we recognize 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. As of February 1, 2020, we owned and operated 107 concept stores, 171 factory outlet stores and 219 warehouse outlet stores in the United States, and 199 concept stores, 93 factory outlet stores, and 10 warehouse outlet stores internationally. We plan to open 115 to 125 new stores in 2020.

- ***Ecommerce***

Our company-owned ecommerce businesses offer virtual storefronts designed to provide a positive shopping and brand experience, showcasing our products in an easy-to-navigate format, allowing consumers to browse our selections and purchase our footwear. These virtual stores provide a convenient, alternative shopping environment and brand experience, and are an additional efficient and effective retail distribution channel, which has improved our customer service. They enable consumers to shop, browse, find store locations, socially interact, post a shoe review, photo, video or question, and immerse themselves in our brands.

- ***Concept Stores***

Our concept stores are located at marquee street locations, major tourist areas or in key shopping malls in 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 offering for the current season, as we estimate that our average wholesale customer carries no more than 5% of the complete Skechers line in any one location. Our concept stores showcase our products in an attractive, easy-to-shop open-floor setting, providing the customer with the complete Skechers story. Second, retail locations are generally chosen to generate maximum marketing value for the Skechers brand name through signage, store front presentation and interior design. Domestic locations include concept stores at Times Square, 5<sup>th</sup> Avenue, SOHO, and 34<sup>th</sup> Street, in New York; Powell Street in San Francisco; Santa Monica's Third Street Promenade; Ala Moana Center in Hawaii; South Beach Miami's Lincoln Road and Las Vegas' Grand Canal Shoppes at the Venetian. International locations include Oxford Street and Covent Garden in London; Buchanan Street in Glasgow; Princes Street in Edinburgh; Toronto's Eaton Centre; Vancouver's Pacific Centre; and the Shinsaibashi shopping district of Osaka and Harajuku and Shibuya in Tokyo. 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 typical Skechers concept store is approximately 3,000 square feet, although in certain markets we have opened concept stores as large as 8,000 square feet or as small as 600 square feet. When deciding where to open concept stores, we identify top geographic markets in the larger metropolitan cities around the world. When selecting a specific site, we evaluate the proposed sites' traffic pattern, co-tenancies, sales volume of 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 their venues.

- **Factory Outlet Stores**

Our factory outlet stores are generally located in manufacturers' direct outlet centers in the United States and in select international markets. 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 and potentially compromise the Skechers brand image. Skechers' factory outlet stores range in size from approximately 850 to 24,100 square feet. Unlike our warehouse outlet stores, inventory in these stores is supplemented by certain first-line styles sold at full retail price points.

- **Warehouse Outlet Stores**

Our free-standing and inline warehouse outlet stores, which are primarily located throughout the United States and Canada, enable us to liquidate excess merchandise, discontinued lines and odd-size inventory in a cost-efficient manner. Skechers' warehouse outlet stores are typically larger than our factory outlet stores and typically range in size from approximately 4,000 to 30,600 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, which could otherwise compromise the Skechers brand image. We seek to open our warehouse outlet stores in areas that are in close proximity to our concept stores to facilitate the timely transfer of inventory that we want to liquidate as soon as practicable.

Store count, openings and closings for our domestic, international and consolidated joint venture stores are as follows:

	Number of Store Locations December 31, 2018	Opened during 2019	Closed during 2019	Number of Store Locations December 31, 2019
<b><u>Domestic stores</u></b>				
Concept .....	114	—	(5)	109
Factory Outlet .....	171	1	(1)	171
Warehouse Outlet .....	185	32	—	217
Domestic stores total.....	<u>470</u>	<u>33</u>	<u>(6)</u>	<u>497</u>
<b><u>International stores</u></b>				
Concept .....	191 <sup>(1)</sup>	15	(6)	200
Factory Outlet .....	82 <sup>(1)</sup>	11	—	93
Warehouse Outlet .....	10	—	—	10
International stores total.....	<u>283</u>	<u>26</u>	<u>(6)</u>	<u>303</u>
<b><u>Joint venture stores</u></b>				
China .....	131	49	(23)	157
Hong Kong.....	43	9	(5)	47
Israel.....	12	3	—	15
Mexico .....	—	81	—	81
South Korea .....	22	13	(18)	17
South East Asia.....	28	9	—	37
Joint venture stores total .....	<u>236</u>	<u>164</u>	<u>(46)</u>	<u>354</u>
<b>Total domestic, international and joint venture stores.....</b>	<b><u>989</u></b>	<b><u>223</u></b>	<b><u>(58)</u></b>	<b><u>1,154</u></b>

(1) Includes the reclassification of 57 concept stores and 4 factory outlet stores from our joint venture in India.

***International Wholesale.*** Our products are sold in more than 175 countries and territories throughout the world. We generate revenues from outside the United States from three principal sources: (i) direct sales to department stores and specialty retail stores through our joint ventures in Asia and the Middle East, as well as through our subsidiaries in the Americas, Europe, and Japan; (ii) sales to foreign distributors who distribute our footwear to department stores and specialty retail stores in select countries and territories across Asia, South America, Africa, the Middle East and Australia; and (iii) to a lesser extent, royalties from licensees who manufacture and distribute our non-footwear 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 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.

- ***International Subsidiaries***

*Europe*

We currently merchandise, market and distribute product in most of Europe through the following subsidiaries: Skechers USA Ltd., with its offices and showrooms in London, England; Skechers S.a.r.l., with its offices in Lausanne, Switzerland; Skechers USA France S.A.S., with its offices and showrooms in Paris, France; Skechers USA Deutschland GmbH, with its offices and showrooms in Dietzenbach, Germany; Skechers USA Iberia, S.L., with its offices and showrooms in Madrid, Spain; Skechers USA Benelux B.V., with its offices and showrooms in Waalwijk, the Netherlands; Skechers USA Italia S.r.l., with its offices and showrooms in Milan, Italy; and Skechers CEE, Kft. with its offices and showrooms in Budapest, Hungary as well as regional showrooms in Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Kosovo, Macedonia, Moldova, Montenegro, Romania, Serbia, Slovakia and Slovenia. To accommodate our European subsidiaries' operations, we operate a 1.3 million square-foot distribution center in Liege, Belgium.

*Canada*

We currently merchandise, market and distribute product in Canada through Skechers USA Canada, Inc. with its offices and showrooms outside Toronto in Mississauga, Ontario. Product sold in Canada is primarily sourced from our U.S. distribution center in Rancho Belago, California. We have company-owned retail stores in key locations across Canada.

*South America and Central America*

We currently merchandise, market and distribute product in South America and Central America through the following subsidiaries: Skechers Do Brasil Calçados LTDA, with its offices and showrooms located in Sao Paulo, Brazil; Comercializadora Skechers Chile Limitada, with its offices and showrooms located in Santiago, Chile; and Skechers Latin America LLC, with its offices and showrooms in Panama City, Panama as well as regional showrooms in Panama, Peru, Colombia and Costa Rica. Our Latin America subsidiary also distributes products in the Caribbean, Ecuador, Guatemala, El Salvador, Honduras and Nicaragua. Product sold in South America and Central America is primarily shipped directly from our contract manufacturers' factories in China and Vietnam. We have retail stores in key locations such as Santiago, Panama City, Bogota and Lima.

*Japan*

We currently merchandise, market and distribute product in Japan through our wholly-owned subsidiary, Skechers Japan GK, with its offices and showrooms located in Tokyo, Japan. Product sold in Japan is primarily shipped directly from our contract manufacturers' factories in China. We have retail stores in key locations such as Osaka and Tokyo.

*India*

We currently merchandise, market and distribute product in through our wholly-owned subsidiary, Skechers South Asia Private Limited and Skechers Retail India Private Limited. We have retail stores in key locations such as Bangalore, Mumbai, and New Delhi.

### *China and Hong Kong*

We have a 50% interest in a joint venture in China and a minority interest in a joint venture in Hong Kong that operate and generate sales in those countries. Under the joint venture agreements, the joint venture partners contribute capital in proportion to their respective ownership interests. We have retail stores in key locations such as Shanghai, Beijing, Guangzhou, Hong Kong and Macau. These joint ventures are consolidated in our financial statements.

### *Malaysia, Singapore and Thailand*

We have a 50% interest in a joint venture in Malaysia and Singapore, and a 51% interest in a joint venture in Thailand that operates and generates sales in those countries. Under the joint venture agreements, the joint venture partners contribute capital in proportion to their respective ownership interests. We have retail stores in key locations such as Singapore and Kuala Lumpur. These joint ventures are consolidated in our financial statements.

### *Israel*

We have a 51% interest in Skechers Ltd. (Israel), which is a joint venture that operates and generates sales in Israel. Under the joint venture agreement, the joint venture partners contribute capital in proportion to their respective ownership interests. We have retail stores in key locations such as Jerusalem and Tel Aviv. This joint venture is consolidated in our financial statements.

### *South Korea*

We have a 65% interest in Skechers Korea Co., Ltd., which is a joint venture that operates and generates sales in South Korea. Under the joint venture agreement, the joint venture partners contribute capital in proportion to their respective ownership interests. We have retail stores in key locations such as Seoul and Busan. This joint venture is consolidated in our financial statements.

### *Mexico*

We have a 60% interest in Manhattan SKMX, S. de R.L. de C.V. (“Skechers Mexico”), which is a joint venture that operates and generates sales in Mexico. Under the joint venture agreement, the joint venture partners contribute capital in proportion to their respective ownership interests. We have over 80 retail stores in key locations such as Mexico City and Guadalajara. This joint venture is consolidated in our financial statements.

- ***Distributors and Licensees***

Where we do not sell directly through our international subsidiaries and joint ventures, our footwear is distributed through an extensive network of more than 23 distributors who sell our products to department, athletic and specialty stores. As of December 31, 2019, we also had agreements with 18 of these distributors and 50 licensees regarding 727 distributor-owned or licensed Skechers retail stores and 1,666 licensee-owned Skechers retail stores, respectively. Our distributors, licensees and franchisees own and operate the following retail stores in more than 175 countries around the world:

	Number of Store Locations December 31, 2018	Opened during 2019	Closed during 2019	Number of Store Locations December 31, 2019
<b><u>Distributor, licensee and franchise stores</u></b>				
Africa .....	46	15	(1)	60
Asia .....	1,348	464	(118)	1,694
Australasia .....	87	22	—	109
Central America.....	9	7	—	16
Europe .....	231	79	(7)	303
Middle East.....	160	11	(7)	164
North America .....	11 <sup>(1)</sup>	1	—	12
South America .....	29	6	—	35
<b>Total distributor, licensee and franchise stores.....</b>	<b>1,921</b>	<b>605</b>	<b>(133)</b>	<b>2,393</b>

(1) Includes the reclassification of 59 concept stores and 16 outlet stores from our licensed distributor in Mexico to joint venture stores.

Distributors and licensees are responsible for their respective stores' operations, have ownership of their respective stores' assets, and select the broad collection of our products to sell to consumers in their regions. In order to maintain a globally consistent image, we provide architectural, graphic and visual guidance and materials for the design of the stores, and we train the local staff on our products and corporate culture. We intend to expand our international presence and global recognition of the Skechers brand name by continuing to sell our footwear to foreign distributors and by opening retail stores with distributors that have local market expertise.

For disclosure of financial information about geographic areas and segment information for our three reportable segments—domestic wholesale sales, international wholesale sales, and retail sales, see Note 20 – Segment and Geographic Reporting in the Consolidated Financial Statements included in this annual report.

## LICENSING

We believe that selective licensing of the Skechers brand name and our product 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 present many potential licensing opportunities on terms with licensees that we believe will provide more effective manufacturing, distribution or marketing of non-footwear products. We also believe that the reputation of Skechers and its history in launching brands has also enabled us to partner with reputable non-footwear brands to design and market their footwear.

As of February 1, 2020, we had 23 active domestic and international licensing agreements in which we are the licensor. These include Skechers-branded kids' apparel; bags, backpacks and lunch boxes; belts, wallets and travel accessories, and watches for adults and kids; headwear, socks and shoe care; prescription and sunglass eyewear; outerwear, swimwear, underwear, sleepwear and medical scrubs; fitness, yoga and running accessories; consumer electronics; and cold weather products. Additional category-specific collections include Skechers Sport apparel, bags, backpacks and headwear; Twinkle Toes backpacks and lunchboxes; and Skechers Work socks. We also have BOBS for DOGS pet accessories in Petco. We have international licensing agreements for the design and distribution of prescription and sunglass eyewear globally; men's, women's and kids' apparel in the United Kingdom; socks and watches throughout Europe; bags and backpacks in the Philippines, Taiwan, Australia, New Zealand, Europe and the Middle East; medical scrubs in the Middle East, Australia, and New Zealand; apparel, socks, headwear, bags, and backpacks in Indonesia; apparel, socks, and bags in Mexico; bags, backpacks, luggage, wallets, watches, medical scrubs and accessories in Latin America; apparel, bags, and backpacks, headwear, socks, and shoe care Turkey; and watches in the Philippines.

## DISTRIBUTION FACILITIES AND OPERATIONS

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 that are shipped either: (i) to our approximate 1.8 million square-foot distribution center located in Rancho Belago, California, (ii) to our approximate 1.3 million square-foot European Distribution Center ("EDC") located in Liege, Belgium, (iii) to our company-operated distribution centers or third-party distribution centers in Central America, South America and Asia, or (vi) directly from third-party manufacturers to our other international customers and other international third-party distribution centers. Upon receipt at either of the distribution centers, merchandise is inspected and recorded in our management information system and packaged according to customers' orders for delivery. Merchandise is shipped to customers by whatever means each customer requests, which is usually by common carrier. The 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 ("EDI system") which is linked to some of our larger customers. This system allows these customers to automatically place orders with us, thereby eliminating the time involved in transmitting and inputting orders, and it includes direct billing and shipping information.

Our shipping methods at our factories reflect our green-minded approach to sustainability: master cartons are printed with soy-or-water-based ink and are 100% recyclable, and at the distribution centers managing more than 90% of our business, our outbound shipping cartons are made with 96%-100% recyclable materials and are 100% recyclable.

## 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 142 foreign countries. We also have design patents and pending design and utility patent applications in both the United States and approximately 23 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 marketing 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 and trade secret protection, non-disclosure agreements and licensing arrangements to establish, protect and enforce intellectual property rights in our logos, trade names 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 and other key trademarks. Despite our efforts to safeguard and maintain our intellectual property rights, we cannot be certain that we will be successful in this regard. Furthermore, we cannot be certain 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, results of operations and cash flows. In addition, although any such claims may ultimately prove to be without merit, the necessary management attention and associated legal costs 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 filed against us has materially impaired our ability to utilize our intellectual property rights.

The laws of certain foreign countries do not protect intellectual property rights to the same extent, or in the same manner, as do the laws of the United States. Although we continue to implement protective measures and intend to defend our intellectual property rights vigorously, these efforts may not be successful, or the costs associated with protecting our rights in certain jurisdictions may be prohibitive. From time to time, we discover products in the marketplace that are counterfeit reproductions of our products or that otherwise infringe upon intellectual property rights held by us. Actions taken by us to establish and protect our trademarks and other intellectual property rights may not be adequate to prevent imitation of our products by others, or to prevent others from seeking to block sales of our products as violating trademarks and intellectual property rights. If we are unsuccessful in challenging a third party's products on the basis of infringement of our intellectual property rights, continued sales of such products by that or any other third party could adversely impact the Skechers brand, result in the shift of consumer preferences away from our products, and generally have a material adverse effect on our business, financial condition, results of operations and cash flows.

## COMPETITION

The global footwear industry is a competitive business. 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 casual shoes and utility footwear compete with footwear offered by companies such as Columbia Sportswear Company, Converse by Nike, Inc., Deckers Outdoor Corporation, Kenneth Cole Productions Inc., Steven Madden, Ltd., The Timberland Company, V.F. Corporation and Wolverine World Wide, Inc. Our athletic lifestyle and performance shoes compete with footwear offered by companies such as Nike, Inc., adidas AG, Reebok International Ltd., Puma SE, ASICS America Corporation, New Balance Athletic Shoe, Inc. and Under Armour, Inc. The intense competition among these companies and the rapid changes in technology and consumer preferences in the markets for performance footwear, including the walking fitness category, constitute significant risk factors in our operations. Our children's shoes compete with footwear offered by these companies and with other brands such as Stride Rite by Wolverine World Wide, Inc. 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 factors. These and other competitors pose challenges to our market share in domestic and international markets. We also compete with numerous manufacturers, importers and distributors of footwear for the limited shelf space available for displaying such products to the consumer. Moreover, the general availability of contract manufacturing capacity allows ease of access by new market entrants. Some of our competitors are larger, have been in existence for a longer period of time, have strong brand recognition, have captured greater market share and/or have substantially greater financial, distribution, marketing and other resources than we do. We cannot be certain that we will be able to compete successfully against present or future competitors, or that competitive pressures will not have a material adverse effect on our business, financial condition, results of operations and cash flows.

## EMPLOYEES

As of January 31, 2020, we employed approximately 13,100 persons, of whom approximately 4,000 were employed on a full-time basis and approximately 9,100 were employed on a part-time basis, primarily in our retail stores. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are satisfactory.

## ITEM 1A. RISK FACTORS

In addition to the other information in this annual report, the following factors should be considered in evaluating us and our business.

### **We Have Significant Sales And Operations In China That Are Expected To Be Adversely Impacted By The Recent Coronavirus Outbreak And Face Risks That Could Impact Our Business, Including Our Results Of Operations.**

Our business has been adversely impacted by the effects of a widespread outbreak of a contagious respiratory illness caused by a novel coronavirus first identified in Wuhan, Hubei Province, China in December 2019.

Since January 2020, in response to intensifying efforts to contain the spread of this coronavirus, a majority of our stores in China have been temporarily closed and we continue to monitor, and where appropriate, modify the operating hours of all of our stores in the market. Additional adverse effects of the coronavirus outbreak include temporary closures of our facilities and/or the facilities of our contract manufacturers in China, disruptions to our ability to manufacture our product in China, dramatically lower customer traffic and comparable store sales at our stores in China and restrictions on our ability to travel into or out of China, in addition to the temporary closures of our stores discussed above. These effects are expected to materially impact our sales and results of operations for the first quarter and full year of fiscal 2020.

At the time of this filing, the outbreak has been largely concentrated in China, although cases have been confirmed in other countries. The extent to which the coronavirus impacts our global business, sales and results of operations will depend on future developments, which are highly uncertain and cannot be predicted. This includes new information that may emerge concerning the severity of the coronavirus, the spread and proliferation of the coronavirus in China and around the world, and the actions taken to contain the coronavirus or treat its impact, among others.

### **Our Future Success Depends On Our Ability To Maintain Our Brand Name And Image With Consumers.**

Our success to date has in large part been due to the strength of the Skechers brand. Maintaining, promoting and growing our brand name and image depends on sustained effort and commitment to, and significant investment in, both the successful development of high-quality, innovative, fashion forward products, and fresh and relevant marketing and advertising campaigns. Even if we are able to timely and appropriately respond to changing consumer preferences and trends with new high-quality products, our marketing and advertising campaigns may not resonate with consumers, or consumers may consider our brand to be outdated or associated with footwear styles that are no longer popular or relevant. Our brand name and image with consumers could also be negatively impacted if we or any of our products were to receive negative publicity, whether related to our products or otherwise. If we are unable to maintain, promote and grow our brand image, then our business, financial condition, results of operations and cash flows could be materially and adversely affected.

### **Our Future Success Also Depends On Our Ability To Respond To Changing Consumer Preferences, Identify And Interpret Consumer Trends, And Successfully Market New Products.**

The footwear industry is subject to rapidly changing consumer preferences. The continued popularity of our footwear and the development of new lines and styles of footwear with widespread consumer appeal, including consumer acceptance of our performance footwear, requires us to accurately identify and interpret changing consumer trends and preferences, and to effectively respond in a timely manner. Continuing demand and market acceptance for both existing and new products are uncertain and depend on the following factors:

- substantial investment in product innovation, design and development;
- commitment to product quality; and
- significant and sustained marketing efforts and expenditures, including with respect to the monitoring of consumer trends in footwear specifically, and in fashion and lifestyle categories generally.

In assessing our response to anticipated changing consumer preferences and trends, we frequently must make decisions about product designs and marketing expenditures several months in advance of the time when actual consumer acceptance can be determined. As a result, we may not be successful in responding to shifting consumer preferences and trends with new products that achieve market acceptance. Because of the ever-changing nature of consumer preferences and market trends, a number of companies in the footwear industry, including ours, experience periods of both rapid growth, followed by declines, in revenue and earnings. If we fail to identify and interpret changing consumer preferences and trends, or are not successful in responding to these changes with the timely development of products that achieve market acceptance, we could experience excess inventories, higher than normal markdowns, returns, order cancellations or an inability to profitably sell our products, and our business, financial condition, results of operations and cash flows could be materially and adversely affected.

**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. Any unanticipated decline in the popularity of Skechers footwear or other unforeseen circumstances may make it difficult for us and our customers to accurately forecast product demand trends, and 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, which could significantly impair our brand image and have a material adverse effect on our operating results, financial condition and cash flows. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply the quality products that we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer and distributor relationships, and diminish brand loyalty.

**We Face Intense Competition, Including Competition From Companies In The Performance Footwear Market and Those 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 from other established companies in the footwear industry. Our competitors' product offerings, pricing, costs of production, and advertising and marketing expenditures are highly competitive areas in our business. If we do not adequately and timely anticipate and respond to our competitors, consumer demand for our products may decline significantly. 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, keep up with rapid changes in footwear technology, and more quickly develop new products. New companies may also enter the markets in which we compete, further increasing competition in the footwear industry. In addition, negative consumer perceptions of our performance features due to our historical reputation as a fashion and lifestyle footwear company may place us at a competitive disadvantage in the performance footwear market. We may not be able to compete successfully in the future, and increased competition may result in price reductions, cost increases, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand our development and marketing of new products, which would materially adversely impact our business, results of operations and financial condition.

**Our Operating Results Could Be Negatively Impacted If Our Sales Are Concentrated In Any One Style Or Group Of Styles.**

If any single style or group of similar styles of our footwear were to represent a substantial portion of our sales, we could be exposed to risk should consumer demand for such style or group of styles decrease in subsequent periods. We attempt to mitigate this risk by offering a broad range of products, and no style comprised over 5% of our gross wholesale sales during 2019 or 2018. However, this may change in the future, and fluctuations in sales of any style representing a significant portion of our future sales could have a negative impact on our operating results.

**The Uncertainty Of Global Market Conditions May Continue To Have A Negative Impact On Our Business, Results Of Operations Or Financial Condition.**

While global economic conditions have recently improved slightly, their uncertain state, including the challenging consumer retail market in the United States, may negatively impact our business, which depends on the general economic environment and levels of consumers' discretionary spending that affect not only the ultimate consumer, but also retailers, who are our primary direct customers. If the current economic situation does not improve or if it weakens, 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 sales. Additionally, if there is an unexpected decline in sales, our results of operations will depend on our ability to implement a corresponding and timely reduction in our costs and manage other aspects of our operations. These challenges include (i) managing our infrastructure, (ii) hiring and maintaining, as required, the appropriate number of qualified employees, (iii) managing inventory levels and (iv) controlling other expenses. If the uncertain global market conditions continue for a significant period of time or worsen, our results of operations, financial condition, and cash flows could be materially adversely affected.

### **Our Business Could Be Adversely Affected By Changes In The Business Or Financial Condition Of Significant Customers Due To Global Economic Conditions.**

The global financial crisis affected the banking system and financial markets and resulted in a tightening in the credit markets, more stringent lending standards and terms, and higher volatility in fixed income, credit, currency and equity markets. In addition, our business could be adversely affected by other economic conditions, such as the insolvency of certain of our key distributors, which could impair our distribution channels, or the diminished liquidity or an inability to obtain credit to finance purchases of our product by our significant customers. Our customers may also experience weak demand for our products or other difficulties in their businesses. If economic, financial or political conditions in global markets deteriorate in the future, demand may be lower than forecasted and insufficient to achieve our anticipated financial results. Any of these events would likely harm our business, results of operations, financial condition and cash flows.

### **We Depend Upon A Relatively Small Group Of Customers For A Portion Of Our Sales.**

During 2019, 2018 and 2017, our sales to our five largest customers accounted for approximately 9.6%, 10.4% and 10.5% of total sales, respectively. No customer accounted for more than 10.0% of our sales during 2019, 2018 and 2017. No customer accounted for more than 10.0% of trade receivables at December 31, 2019 and 2018. These customers are primarily retailers who also distribute products for our competitors. 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 which may result in our loss of customers or our inability to collect accounts receivable of major customers. 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, our business could be harmed.

### **We May Experience Losses Because Of The Inability To Collect Accounts Receivable If Our Customers Are Unable To Pay Their Debts To Us When Due.**

We rely on our network of domestic and international wholesale customers, comprised of department, athletic and specialty stores and online retailers, to distribute our products. Certain of our wholesale customers may from time to time experience bankruptcy, insolvency, and/or an inability to pay their debts to us as they come due. If our wholesale customers suffer significant financial difficulty, they may be unable to pay their debts to us timely or at all, which could have a material adverse effect on our results of operations. It is possible that wholesale customers may contest their contractual obligations to us under bankruptcy laws or otherwise. Significant customer bankruptcies could further adversely affect our sales and increase our operating expenses by requiring larger accruals for bad debt expense. In addition, even when our contracts with these customers are not contested, if customers are unable to meet their obligations on a timely basis, it could adversely affect our ability to collect receivables. Further, we may have to negotiate significant discounts and/or extended financing terms with these customers in such a situation. If we are unable to collect upon our accounts receivable as they come due in an efficient and timely manner, our business, financial condition, or results of operations may be materially adversely affected. We also face risk from international customers that file for bankruptcy protection in foreign jurisdictions, as the application of foreign bankruptcy laws may be more difficult to predict. Although we believe that we have sufficient reserves to cover anticipated customer bankruptcies, there can be no assurance that such reserves will be adequate, and if they are not adequate, our business, cash flows, operating results and financial condition would be adversely affected.

### **Our Global Retail Business Has Required, And Will Continue To Require, A Substantial Investment And Commitment Of Resources And Is Subject To Numerous Risks And Uncertainties.**

Our global retail business has required substantial investments in leasehold improvements, inventory and personnel. We have also made substantial operating lease commitments for retail space worldwide. Due to the high fixed-cost structure associated with our global retail business, a decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs or impairments of leasehold improvements, and employee-related termination costs. The success of our global retail operations also depends on our ability to identify and adapt to changes in consumer spending patterns and retail shopping preferences globally, including the shift from brick and mortar to direct-to-consumer and mobile channels, and our ability to effectively develop our direct-to-consumer and mobile channels. Our failure to successfully respond to these factors could adversely affect our retail business, as well as damage our brand and reputation, and could materially affect our results of operations, financial position and cash flows.



**Our Quarterly Revenues And Operating Results Fluctuate As A Result Of A Variety Of Factors, Including Seasonal Fluctuations In Demand For Footwear, Delivery Date Delays And Potential Fluctuations In Our Estimated Annualized Tax Rate, 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. Our major customers have no obligation to purchase forecasted amounts, may and have canceled orders in the past, and may change delivery schedules or change the mix of products ordered with minimal notice and without penalty. As a result, we may not be able to accurately predict our quarterly sales. In addition, sales of footwear products have historically been somewhat seasonal in nature, with the strongest domestic sales generally occurring in our second and third quarters for the back-to-school selling season. Domestically, back-to-school sales typically ship in June, July and August, and delays in the timing, cancellation, or rescheduling of these customer orders and shipments by our wholesale customers could negatively impact our sales and results of operations for our second or third quarters. More specifically, the timing of when products are shipped is determined by the delivery schedules set by our wholesale customers, which could cause sales to shift between our second and third quarters. Because our expense levels are partially based on our expectations of future sales, our expenses may be disproportionately large relative to our revenues, and we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shifts, which could have a material adverse effect on our operating results.

Our annualized tax rate is based on projections of our domestic and international operating results for the year, which we review and revise as necessary at the end of each quarter, and it is highly sensitive to fluctuations in projected international earnings. Any quarterly fluctuations in our annualized tax rate that may occur could have a material impact on our quarterly operating results. 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 earnings from levels expected by securities analysts and investors could cause a decrease in the trading price of our Class A Common Stock.

**Foreign Currency Exchange Rate Fluctuations Could Have A Material Adverse Effect On Our Business And Results Of Operations.**

Foreign currency fluctuations affect our revenue and profitability. Changes in currency exchange rates may impact our financial results positively or negatively in one period and not another, which may make it difficult to compare our operating results from different periods. Currency exchange rate fluctuations may also adversely impact third parties that manufacture our products by making their costs of raw materials or other production costs more expensive and more difficult to finance, thereby raising prices for our company, our distributors and/or our licensees. We do not currently engage in hedging activities with respect to these currency exchange rate risks. For a more detailed discussion of the risks related to foreign currency fluctuation, see Item 7A: “Quantitative and Qualitative Disclosures About Market Risk.”

In addition, our foreign subsidiaries purchase products in U.S. dollars in which the cost of those products will vary depending on the foreign currency rates and will impact the price charged to customers. Our foreign distributors also purchase products in U.S. dollars and sell in local currencies, which impacts the price to foreign consumers. As the U.S. dollar strengthens relative to foreign currencies, our revenues and profits are reduced when translated into U.S. dollars and our margins may be negatively impacted by the increase in product costs due to foreign currency rates. Although we typically work to mitigate this negative foreign currency transaction impact through price increases and further actions to reduce costs, we may not be able to fully offset the impact, if at all. Our success depends, in part, on our ability to manage or mitigate these foreign currency impacts as changes in the value of the U.S. dollar relative to other currencies could have a material adverse effect on our business, results of operations, financial position and cash flows.

**An Increase In Our Effective Tax Rate Could Have A Material Adverse Effect On Our Results Of Operations And Financial Position.**

A significant amount of our foreign earnings are generated in low or zero tax jurisdictions. As a result, our income tax expense has historically been lower than the tax computed at the U.S. statutory income tax rate. Our future effective tax rates could be unfavorably affected by a number of factors, including but not limited to, changes in the tax rates or the tax rules and regulations (including rules and regulations related to recently enacted U.S. tax legislation), or in the interpretation thereof, in the jurisdictions in which we do business; decreases in the amount of earnings in countries with low statutory tax rates; increases in the amount of earnings in countries with high statutory tax rates; or if we need to make significant taxable distributions of foreign earnings for which foreign taxes have not been provided. An increase in our effective tax rate could have a material adverse effect on our business, results of operations, financial position and cash flows.



**Changes In Tax Laws Or The Potential Imposition Of Additional Duties, Quotas, Tariffs And Other Trade Restrictions Could Have An Adverse Impact On Our Sales And Profitability.**

All of our products manufactured overseas and imported into the United States, the European Union (“EU”) and other countries are subject to customs duties collected by customs authorities. Customs information submitted by us is routinely subject to review by customs authorities. We are unable to predict whether there may be unfavorable changes in tax laws in the United States or overseas, additional customs duties, quotas, tariffs, anti-dumping duties, safeguard measures, cargo restrictions to prevent terrorism or other trade restrictions imposed on the importation of our products in the future. Such actions could adversely affect our ability to produce and market footwear at competitive prices and might have an adverse impact on the sales and profitability of Skechers.

**Our International Sales And Manufacturing Operations Are Subject To The Risks Of Doing Business Abroad, Particularly In China and Vietnam, 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 sales during the year ended December 31, 2019, were derived from sales of footwear manufactured in foreign countries, with most manufactured in China and Vietnam. 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 the following: political and social unrest, including terrorism; changing economic conditions, including higher labor costs; increased costs of raw materials; currency exchange rate fluctuations; labor shortages and work stoppages, including those due to the outbreak of a disease leading to an epidemic or pandemic spread; electrical shortages; transportation delays; loss or damage to products in transit; expropriation; nationalization; the adjustment, elimination or imposition of domestic and international duties, tariffs, quotas, import and export controls and other non-tariff barriers; exposure to different legal standards (particularly with respect to intellectual property); compliance with foreign laws; and changes in domestic and foreign governmental policies. We have not, to date, been materially affected by any such risks, but we cannot predict the likelihood of such developments occurring or the resulting long-term adverse impact on our business, results of operations, financial condition and cash flows.

In particular, because most of our products are manufactured in China and Vietnam, the possibility of adverse changes in trade or political relations with China or Vietnam, political instability in China or Vietnam, increases in labor costs, the occurrence of prolonged adverse weather conditions or a natural disaster such as an earthquake or typhoon in China or Vietnam, or the outbreak of a pandemic disease in China or Vietnam could severely interfere with the manufacturing and/or shipment of our products and would have a material adverse effect on our operations. Our business operations may be adversely affected by the current and future political environment in the Communist Party of China (“PRC”). The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under its current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice. A change in policies by the PRC government could adversely affect our interests by, among other factors: changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports or sources of supplies, or the expropriation or nationalization of private enterprises. In addition, electrical shortages, labor shortages or work stoppages may extend the production time necessary to produce our orders, and there may be circumstances in the future where we may have to incur premium freight charges to expedite the delivery of product to our customers. If we incur a significant amount of premium charges to airfreight product for our customers, our gross profit will be negatively affected if we are unable to collect those charges.

**Changes to Trade Policy, including New Tariffs Imposed By The United States Government, Could Have A Material Adverse Effect On Our Results Of Operations.**

Changes in social, political, regulatory and economic conditions or in laws and policies governing trade, manufacturing, development and investment in the countries from which we import our products, or conduct our business, as well as any negative sentiment toward the United States as a result of such changes, could adversely affect our business. The United States government has placed or proposed additional tariffs on certain goods imported from China and may enact new tariffs on additional goods imported from China, including footwear and other products that we import. China had imposed tariffs on a wide range of American products in retaliation and responded to the new proposed tariff by, among other things, adjusting the value of its currency. China and the United States have made progress and are in discussions to finalize a trade agreement, however there is no guarantee that any agreement between the countries will be reached. China could impose additional tariffs or take other actions if the countries are unable to come to an agreement. The majority of our products that we sell in the United States are manufactured in China. The United States government has also negotiated a replacement trade deal for NAFTA with Mexico and Canada, the United States-Mexico-Canada Agreement (the “USMCA”), which still needs to be ratified. There is also a concern that the imposition of additional tariffs by the United States could result in the adoption of additional tariffs by other countries as well. If the United States government does not reach a trade agreement

with China or replaces NAFTA with USMCA, or if additional tariffs or trade restrictions are implemented by the United States or other countries in connection with a global trade war, the resulting escalation of trade tensions could have a significant, adverse effect on world trade and the world economy. While it is too early to predict whether or how the recent policy changes will impact our business, the imposition of tariffs on footwear, apparel or other items imported by us from China could require us to increase prices to our customers or, if unable to do so, result in lowering our gross margin on products sold. Tariffs on footwear imported from China could have a material adverse effect on our business and results of operations.

**Many Of Our Retail Stores Depend Heavily On The Customer Traffic Generated By Shopping And Factory Outlet Malls Or By Tourism.**

Many of our concept stores are located in shopping malls, and some of our factory outlet stores are located in manufacturers' outlet malls where we depend on obtaining prominent locations and the overall success of the malls to generate customer traffic. We cannot control the success of individual malls, and an increase in store closures by other retailers may lead to mall vacancies and reduced foot traffic. Some of our concept stores occupy street locations that are heavily dependent on customer traffic generated by tourism. Any substantial decrease in tourism resulting from an economic slowdown, political, social or military events or otherwise, is likely to adversely affect sales in our existing stores, particularly those with street locations. The effects of these factors could reduce sales of particular existing stores or hinder our ability to open retail stores in new markets, which could negatively affect 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 2019 and 2018, the top five manufacturers of our products produced approximately 40.6% and 41.9% of our total purchases, respectively. One manufacturer accounted for 16.0% and 12.8% of total purchases during 2019 and 2018, respectively. Another manufacturer accounted for 7.3% and 10.1% of our total purchases during 2019 and 2018, respectively. 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 Ability To Deliver Our Products To The Market Could Be Disrupted If We Encounter Problems Affecting Our Logistics And Distribution Systems.**

We rely on owned or independently operated distribution facilities to transport, warehouse and ship products to our customers. Our logistic and distribution systems include computer-controlled and automated equipment, which may be subject to a number of risks related to security or computer viruses, the proper operation of software and hardware, power interruptions or other system failures. Substantially all of our products are distributed from a few key locations. Therefore, our operations could be interrupted by travel restrictions, earthquakes, floods, fires or other natural disasters near our distribution centers. Our business interruption insurance may not adequately protect us from the adverse effects that could be caused by significant disruptions affecting our distribution facilities, such as the long-term loss of customers or an erosion of brand image. In addition, our distribution capacity is dependent on the timely performance of services by third parties, including the transportation of products to and from our distribution facilities. If we encounter problems affecting our distribution system, our ability to meet customer expectations, manage inventory, complete sales and achieve operating efficiencies could be materially adversely affected.

**Our Business Could Be Harmed If Our Contract Manufacturers, Suppliers Or Licensees Violate Labor, Trade Or Other Laws.**

We require our independent contract manufacturers, suppliers and licensees to operate in compliance with applicable 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 law in 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.

In addition, if we, or our foreign manufacturers, violate United States or foreign trade laws or regulations, we may be subject 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 products, 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 Strategies Involve A Number Of Risks That Could Prevent Or Delay The Successful Opening Of New Stores As Well As Negatively Impact The Performance Of Our Existing Stores.**

Our ability to successfully open and operate new stores 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 sales volumes in existing stores in those markets. If sales decline at our retail stores, whether through competition from online sites or other companies, we may decide to close stores, which could result in additional costs, expenses, asset impairments or asset write-downs.





**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 a member of our Board of Directors; and David Weinberg, Executive Vice President, Chief Operating Officer and a member of our Board of Directors. 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.

**The Disruption, Expense And Potential Liability Associated With Existing And Unanticipated Future Litigation Against Us Could Have A Material Adverse Effect On Our Business, Results Of Operations, Financial Condition And Cash Flows.**

In addition to the legal matters included in our reserve for loss contingencies, we occasionally become involved in litigation arising from the normal course of business, and we are unable to determine the extent of any liability that may arise from any such unanticipated future litigation. We have no reason to believe that there is a reasonable possibility or a probability that we may incur a material loss, or a material loss in excess of a recorded accrual, with respect to any other such loss contingencies. However, the outcome of litigation is inherently uncertain and assessments and decisions on defense and settlement can change significantly in a short period of time. Therefore, although we consider the likelihood of such an outcome to be remote with respect to those matters for which we have not reserved an amount for loss contingencies, if one or more of these legal matters were resolved against us in the same reporting period for amounts in excess of our expectations, our consolidated financial statements of a particular reporting period could be materially adversely affected. Further, any unanticipated litigation in the future, regardless of its merits, could also significantly divert management's attention from our operations and result in substantial legal fees being incurred. Such disruptions, legal fees and any losses resulting from these unanticipated future claims could have a material adverse effect on our business or financial condition.

## **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 believe that our trademarks, design patents and other proprietary rights are important to our success and our competitive position. 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®, Skechers Performance™, Skechers GOrun®, Skechers GOwalk®, Skechers GOGolf®, Skechers GOrain®, Skechers on-the-GO®, , , , , Skechers Cali®, Skecher Street®, Skechers USA®, Skechers Active™, Skechers Sport Active™, Skechers Work™, Mark Nason®, D'Lites®, DLT-A®, BOBS®, Energy Lights®, Skech-Air®, Twinkle Toes®, Z-Strap®, Mega-Flex®, Luminators®, Heart Lights™, Relaxed Fit®, Arch Fit™, Ultra GO®, Hyper Burst®, Skechers Memory Foam™, and Air-cooled Memory Foam® trademarks to be among our most valuable assets, and we have registered these trademarks in many countries. In addition, we own many other trademarks that we utilize in marketing our products. 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 patents and trademarks are generally sufficient to permit us to carry on our business as presently conducted. While we vigorously protect our trademarks against infringement, we cannot guarantee that 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 have been sued in the past for patent and trademark infringement and cannot be sure that our activities do not and will not infringe on the intellectual property 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 as well as the diversion of management's attention from our business, each of which could negatively impact our business or financial condition.

In addition, the laws of foreign countries where we source and distribute our products may not protect intellectual property rights to the same extent as do the laws of the United States. We cannot assure you that the actions we have taken to establish and protect our trademarks and other intellectual property rights outside the United States will be adequate to prevent imitation of our products by others or, if necessary, successfully challenge another party's counterfeit products or products that otherwise infringe on our intellectual property rights on the basis of trademark or patent infringement. Continued sales of these products could adversely affect our sales and our brand and result in the shift of consumer preference away from our products. We may face significant expenses and liability in connection with the protection of our intellectual property rights outside the United States, and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition could be adversely affected.

## **Breaches Or Compromises Of Our Information Security Systems, Information Technology Systems And Our Infrastructure To Support Our Business Could Result In Exposure Of Private Information, Disruption Of Our Business And Damage To Our Reputation, Which Could Harm Our Business, Results Of Operation And Financial Condition.**

As a routine part of our business, we utilize information security and information technology systems and websites that allow for the secure storage and transmission of proprietary or private information regarding our customers, employees, vendors and others. A security breach of our network, hosted service providers, or vendor systems, may expose us to a risk of loss or misuse of this information, litigation and potential liability. Hackers and data thieves are increasingly sophisticated and operate large-scale and complex automated attacks, and the retail industry, in particular, has been the target of many recent cyber-attacks. Although we take measures to safeguard this sensitive information, we may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving types of cyber-attacks targeted at us, our customers, or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants.

We invest in industry standard security technology to protect personal information. Advances in computer capabilities, new technological discoveries, or other developments may result in the technology used by us to protect against transaction or other data being breached or compromised. In addition, data and security breaches can also occur as a result of non-technical issues, including breach by us or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Although we maintain insurance designed to provide coverage for cyber risks related to what we believe to be adequate and collectible insurance in the event of theft, loss, fraudulent or unlawful use of customer, employee or company data, any compromise or breach of our cyber security systems could result in private information exposure and a violation of applicable privacy and other laws, significant potential liability including legal and financial costs, and loss of confidence in our security measures by customers, which could result in damage to our brand and have an adverse effect on our business, financial condition and reputation. In addition, we must comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data. Compliance with existing and proposed laws and regulations can be costly, and any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against us by governmental entities or others, damage to our reputation and credibility and could have a negative impact on revenues and profits.



**Natural Disasters Or A Decline In Economic Conditions In California Could Increase Our Operating Expenses Or Adversely Affect Our Sales Revenue.**

As of December 31, 2019, a substantial portion of our operations are located in California, including 100 of our retail stores, our headquarters in Manhattan Beach, and our domestic distribution center in Rancho Belago. Because a significant portion of our 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 or wildfire affecting California, could significantly disrupt our business including the operation of our only domestic distribution center. We may be more susceptible to these issues than our competitors whose operations are not as concentrated in California.

**Two Principal Stockholders Are Able To Exert Significant Influence Over All Matters Requiring A Vote Of Our Stockholders, And Their Interests May Differ From The Interests Of Our Other Stockholders.**

As of December 31, 2019, our Chairman of the Board and Chief Executive Officer, Robert Greenberg, beneficially owned 82.4% of our outstanding Class B common shares, members of Mr. Greenberg's immediate family beneficially owned an additional 12.3% of our outstanding Class B common shares, and Gil Schwartzberg, trustee of several trusts formed by Mr. Greenberg and his wife for estate planning purposes, beneficially owned 27.9% of our outstanding Class B common shares. The holders of Class A common shares and Class B common shares have identical rights except that holders of Class A common shares are entitled to one vote per share while holders of Class B common shares are entitled to ten votes per share on all matters submitted to a vote of our stockholders. As a result, as of December 31, 2019, Mr. Greenberg beneficially owned 37.2% of the aggregate number of votes eligible to be cast by our stockholders, and together with shares beneficially owned by other members of his immediate family, Mr. Greenberg and his immediate family beneficially owned 45.7% of the aggregate number of votes eligible to be cast by our stockholders, and Mr. Schwartzberg beneficially owned 17.4% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Messrs. Greenberg and Schwartzberg are each able to exert significant influence over 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 significant influence over our management and operations. As a result of such influence, certain transactions are not likely without the approval of Messrs. Greenberg and Schwartzberg, 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. Because Messrs. Greenberg's and Schwartzberg's interests may differ from the interests of the other stockholders, their ability to substantially control or significantly influence, respectively, actions requiring stockholder approval, may result in our company taking action that is not in the interests of all stockholders. The differential in the voting rights may also 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 Adversely Affect 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 our Class A Common Stock and Class B Common Stock, the classification of our 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 Stock at a premium over the market price of the Class A Common Stock and may adversely affect the market price of our Class A Common Stock.



## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Our corporate headquarters are located at several properties in or near Manhattan Beach, California, which consist of an aggregate of approximately 200,000 square feet. We own and lease portions of our corporate headquarters.

Our U.S. distribution center is a 1.8 million square-foot facility located on approximately 110 acres in Rancho Belago, California. We are leasing the distribution center from a joint venture, HF Logistics-SKX (the “JV”), that we formed with HF Logistics I, LLC (“HF”) in January 2010 for the purpose of building and operating the facility. The lease for this facility expires in November 2031, with a base rent of \$940,695 per month, or approximately \$11.3 million per year. The JV is consolidated in our financial statements.

Our European distribution center occupies approximately 1.3 million square feet in Liege, Belgium under five operating leases, with base rents of approximately \$5.5 million per year. These leases provide for original terms of 10 to 15 years, commencing between January 2016 and June 2016, subject to automatic extensions for recurring periods of five years unless we or the landlord terminates the lease in writing 12 months prior to the expiration of the original lease term or 12 months prior to the end of the then applicable five-year extension.

All of our domestic retail stores and showrooms are leased with terms expiring between February 2020 and January 2033. 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, or a percentage of the store’s gross sales in excess of the base annual rent. Total base rent expense related to our domestic retail stores and showrooms was \$111.0 million for the year ended December 31, 2019.

We also lease all of our international administrative offices, retail stores, showrooms and distribution facilities located in Asia, Central America, Europe, North America and South America. The property leases expire at various dates between January 2020 and January 2033.

## ITEM 3. LEGAL PROCEEDINGS

*Converse, Inc. v. Skechers U.S.A., Inc.* – On October 14, 2014, Converse filed an action against our company in the United States District Court for the Eastern District of New York, Brooklyn Division, Case 1:14-cv-05977-DLI-MDG, alleging trademark infringement, false designation of origin, unfair competition, trademark dilution and deceptive practices arising out of our alleged use of certain design elements on footwear. The complaint seeks, among other things, injunctive relief, profits, actual damages, enhanced damages, punitive damages, costs and attorneys’ fees. On October 14, 2014, Converse also filed a complaint naming 27 respondents including our company with the U.S. International Trade Commission (the “ITC” or “Commission”), Federal Register Doc. 2014-24890, alleging violations of federal law in the importation into and the sale within the United States of certain footwear. Converse has requested that the Commission issue a general exclusion order, or in the alternative a limited exclusion order, and cease and desist orders. On December 8, 2014, the District Court stayed the proceedings before it. On December 19, 2014, Skechers responded to the ITC complaint, denying the material allegations and asserting affirmative defenses. A trial before an administrative law judge of the ITC was held in August 2015. On November 15, 2015, the ITC judge issued his Initial Determination finding that certain discontinued products (Daddy’s Money and HyDee HyTops) infringed on Converse’s intellectual property, but that other, still active product lines (Twinkle Toes and Bobs Utopia) did not. On February 3, 2016, the ITC decided that it would review in part certain matters that were decided by the ITC judge. On June 28, 2016, the full ITC issued its Final Determination affirming that Skechers Twinkle Toes and Bobs Utopia shoes do not infringe Converse’s Chuck Taylor Midsole Trademark and affirming that Converse’s common law trademark was invalid. The full ITC also invalidated Converse’s registered trademark. Converse appealed this decision to the United States Court of Appeals for the Federal Circuit. On January 27, 2017, Converse filed its appellate brief but did not contest the portion of the decision that held that Skechers Twinkle Toes and Bobs Utopia shoes do not infringe. On June 26, 2017, we filed our responsive brief, on February 8, 2018, the court heard oral argument, and on June 7, 2018, the Court requested supplemental briefing on certain issues. On October 30, 2018, the United States Court of Appeals for the Federal Circuit vacated portions of the ITC’s ruling and remanded the matter back to the ITC for further proceedings. Although Converse did not appeal the Commission’s non-infringement findings for Skechers Twinkle Toes and Bobs Utopia shoes to the Federal Circuit, Converse asked the Commission to reconsider its previous non-infringement findings on remand. On October 9, 2019, the ITC judge issued his Remand Initial Determination (the “RID”) finding that Converse did not have any rights in the subject intellectual property as to Skechers, and that Skechers Twinkle Toes, Bobs Utopia, and HyDee Hytop did not infringe Converse’s intellectual property but the discontinued Daddy’s Money would infringe, but only if Converse had rights in the subject intellectual property as to Skechers (which the ITC judge found that Converse did not). On October 22, 2019, the parties filed petitions seeking review of the RID. Converse did not, however, seek review of the finding in the RID that Skechers Twinkle Toes and Bobs Utopia do not infringe. On February 7, 2020, the full ITC decided to review the RID, outlined the issues and set a briefing schedule. While it is too early to predict the outcome of these legal proceedings or whether an adverse result in either or both of them would have a material adverse impact on our

results of operations or financial position, we believe we have meritorious defenses and intend to defend these legal matters vigorously.

*Nike, Inc. v. Skechers USA, Inc.* – On January 4, 2016, Nike filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:16-cv-0007, alleging that certain Skechers shoe designs (Men’s Burst, Women’s Burst, Women’s Flex Appeal, Men’s Flex Advantage, Girls’ Skech Appeal, and Boys’ Flex Advantage) infringe the claims of eight design patents. Nike seeks injunctive relief, disgorgement of Skechers’ profits, damages (including treble damages), pre-judgment and post-judgment interest, attorneys’ fees, and costs. In April and May 2016, we filed petitions with the United States Patent and Trademark Office’s Patent Trial and Appeal Board (the “PTAB”) for inter partes review of all eight design patents, seeking to invalidate those patents. In September and November 2016, the PTAB denied each of our petitions. On January 6, 2017, we filed several additional petitions for inter partes review with the PTAB, seeking to invalidate seven of the eight designs patents that Nike is asserting. In July 2017, we were notified that the PTAB granted our petitions and instituted inter partes review proceedings with respect to two of the seven design patents but denied our petitions as to the others. In June 2017, we filed a motion to transfer venue from the District of Oregon to the Central District of California based on a recent United States Supreme Court decision and the motion was granted on November 17, 2017. On June 28, 2018, the PTAB issued final decisions in the two inter partes review proceedings, rejecting the invalidity challenges made by our company in those proceedings. On June 4, 2018, the Court, over Nike’s opposition, granted our request for a claim construction hearing. On March 28, 2019, the Court issued an order declining to issue a claim construction at this stage of the proceedings, but it did not foreclose the issue, instead observing that it might be appropriate to address claim construction at a later stage. The parties have now completed discovery and have filed summary judgement motions. Nike has also withdrawn its claim for treble or enhanced damages. The court heard the summary judgment motions on February 18, 2020, requested supplemental briefing on certain issues and took the motions under submission. While it is too early to predict the outcome of the case or whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

*Nike, Inc. v. Skechers USA, Inc.* – On September 30, 2019, Nike filed an action against our company in the United States District Court for the Central District of California, Case No. 2:19-cv-08418, alleging that certain Skechers’ shoe designs (Skech-Air Atlas, Skech-Air 92, Skech-Air Stratus and Skech-Air Blast) infringe the claims of twelve design patents. Nike seeks injunctive relief, disgorgement of Skechers’ profits, damages (including treble damages), pre-judgment and post-judgment interest, attorneys’ fees, and costs. Skechers has filed its answer and the case is in the early stages. While it is too early to predict the outcome of the case or whether an adverse result would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

*Nike, Inc. v. Skechers USA, Inc.* – On October 28, 2019, Nike filed an action against our company in the United States District Court for the Central District of California, Case No. 2:19-cv-09230, alleging that certain Skechers’ shoe designs (Skech-Air Jumpin’ Dots and Skech-Air Mega) infringe the claims of two utility patents. Nike seeks injunctive relief, disgorgement of Skechers’ profits, damages (including treble damages), pre-judgment and post-judgment interest, attorneys’ fees, and costs. Skechers has answered the complaint and the case is in the early stages. While it is too early to predict the outcome of the case or whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

*Steamfitters Local 449 Pension Plan v. Skechers USA, Inc., Robert Greenberg and David Weinberg.* – On October 20, 2017, the Steamfitters Local 449 Pension Plan filed a securities class action, on behalf of itself and purportedly on behalf of other shareholders who purchased Skechers stock in a five-month period in 2015, against our company and certain of its officers in the United States District Court for the Southern District of New York, case number 1:17-cv-08107. On April 4, 2018, the plaintiffs filed an amended and consolidated complaint, and on July 24, 2018, plaintiffs filed a second amended and consolidated complaint. The lawsuit alleges that, between April 23 and October 22, 2015, we made materially false statements or omissions of material fact about the anticipated performance of our Domestic Wholesale segment and asserts claims for unspecified damages, attorneys’ fees and equitable relief based on two counts for alleged violations of federal securities laws. On November 21, 2018, we filed a motion to dismiss. On January 10, 2019, plaintiffs filed an opposition, and on February 11, 2019, we filed a reply. On September 23, 2019, the court granted our motion to dismiss without leave to amend, on October 22, 2019, the plaintiffs appealed it to the United States Court of Appeals for the Second Circuit, and on February 4, 2020, filed appellants’ opening brief. Given the early stage of this proceeding and the limited information available, we cannot predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our results of operations or financial position. We believe we have meritorious defenses and intend to defend this matter vigorously.

*In Re Skechers Securities Litigation (formerly Laborers Local 235 Benefit Fund v. Skechers USA, Inc. Robert Greenberg, David Weinberg and John Vandemore)* – On September 4, 2018, Laborers Local 235 Benefit Fund filed a securities class action on behalf of itself and purportedly on behalf of other shareholders who purchased our company’s stock between October 20, 2017 and July 19, 2018 (the “Class Period”), against our company and certain of its officers in the United States District Court for the Southern District of New York, case number 1:18-cv-8039. The complaint alleges that throughout the Class Period we made materially false statements or omissions of material fact regarding our sales growth and controlling expenses and asserts claims for unspecified damages and attorneys’ fees. Beginning October 17, 2018, copycat cases were filed, and on January 22, 2019, a consolidated amended class action complaint was filed as *In Re Skechers Securities Litigation*. On May 13, 2019, we filed a motion to dismiss the complaint. On June 27, 2019, plaintiffs filed an opposition, and on July 29, 2019, we filed a reply. The court heard the motion on January 23, 2020 and took it under submission. We believe we have meritorious defenses and intend to defend these matters vigorously. Given the early stages of these proceedings and the limited information available, we cannot predict the outcome of these legal proceedings or whether an adverse result in these cases would have a material adverse impact on our results of operations or financial position.

*Police & Fire Ret. Sys. of the City of Detroit, et al. v. Greenberg, et al.* – On July 26, 2019, our company and most of the Board of Directors were sued by several shareholders on behalf of our company in a derivative action in the Court of Chancery of the State of Delaware, Case No. 2019-0578. The complaint alleges breach of fiduciary duty and waste of corporate assets in connection with the grant of compensation to certain officers. On October 8, 2019, we filed a motion to dismiss the complaint, which is not fully briefed. Mediation is scheduled for March 11, 2020. We believe we have meritorious defenses and intend to defend this matter vigorously. Given the early stages of these proceedings and the limited information available, we cannot predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our results of operations or financial position.

*Kathleen Houseman v. Robert Greenberg, et al.* – On November 27, 2018, our company, the Board of Directors and CFO John Vandemore were sued by a shareholder on behalf of our company in a derivative action in the United States District Court for the District of Delaware, Case No 1:18-cv-01878. The complaint is based largely on the same underlying factual allegations as *In Re Skechers Securities Litigation*. By mutual agreement of the parties this case has been stayed pending the outcome of *In Re Skechers Securities Litigation*. We believe we have meritorious defenses and intend to defend this matter vigorously. Notwithstanding, given the early stages of these proceedings and the limited information available, we cannot predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our results of operations or financial position.

*Jesse Chen v. Robert Greenberg, et al.* – On January 16, 2019, our company, the Board of Directors and CFO John Vandemore were sued by a shareholder on behalf of our company in a derivative action in the Superior Court for the State of California for the County of Los Angeles, Case No.19-STC-CV00393. The complaint mirrors the Houseman case, supra, and is based largely on the same underlying factual allegations as *In Re Skechers Securities Litigation*. By mutual agreement of the parties this case has been stayed pending the outcome of *In Re Skechers Securities Litigation*. We believe we have meritorious defenses and intend to defend this matter vigorously. Notwithstanding, given the early stages of these proceedings and the limited information available, we cannot predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our results of operations or financial position.

*Ealeen Wilk v. Skechers U.S.A., Inc.* – On September 10, 2018, Ealeen Wilk filed a putative class action lawsuit against our company in the United States District Court for the Central District of California, Case No. 5:18-cv-01921, alleging violations of the California Labor Code, including unpaid overtime, unpaid wages due upon termination and unfair business practices. The complaint seeks actual, compensatory, special and general damages; penalties and liquidated damages; restitutionary and injunctive relief; attorneys’ fees and costs; and interest as permitted by law. On July 5, 2019, the court granted, in part, plaintiff’s motion for conditional certification of a Fair Labor Standards Act (FLSA) collective action. On July 22, 2019, the parties submitted to the court an agreed upon notice to be sent to members of the collective. The parties are delaying the mailing of the Belaire-West privacy opt out notice until after mediation. The parties reached a settlement in principle as a result of a January 27, 2020 mediation but the details of the settlement still need to be worked out and the settlement has to be documented. The parties have agreed to an informal stay of discovery and have stipulated to continue all relevant discovery and motion deadlines accordingly. In the event the settlement is not concluded successfully the deadline for the Court to hear a motion for class certification and/or summary judgement is April 6, 2020 and trial is set for June 16, 2020. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe that we have meritorious defenses, vehemently deny the allegations, and intend to defend the case vigorously.

*Jose Zavala Guzman v. Team One Employment Specialists, Skechers USA, Inc. et. al.* – On April 2, 2019, Jose Guzman, a Team One employee, filed a class action lawsuit against Team One and our company in the Superior Court of California, County of Los Angeles County, Case No. 19STCV11006. The complaint alleges various wage and hour violations, and seeks compensatory damages, liquidated damages, penalties, interest and restitution. This complaint was followed by a Private Attorney General’s Act Notice, specifying the same allegations raised in the complaint. This matter was tendered to our insurance carrier, and we are currently investigating the allegations. Co-defendant Team-One has filed a motion to compel arbitration, which our company has joined in. The hearing that was originally set for January 30, 2020 was postponed pending a March 16, 2020 mediation and the matter is otherwise stayed until then. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe that we have meritorious defenses, vehemently deny the allegations, and intend to defend the case vigorously.

In addition to the matters included in our reserve for loss contingencies, we occasionally become involved in litigation arising from the normal course of business, and we are unable to determine the extent of any liability that may arise from any such unanticipated future litigation. We have no reason to believe that there is a reasonable possibility or a probability that we may incur a material loss, or a material loss in excess of a recorded accrual, with respect to any other such loss contingencies. However, the outcome of litigation is inherently uncertain and assessments and decisions on defense and settlement can change significantly in a short period of time. Therefore, although we consider the likelihood of such an outcome to be remote with respect to those matters for which we have not reserved an amount for loss contingencies, if one or more of these legal matters were resolved against our company in the same reporting period for amounts in excess of our expectations, our consolidated financial statements of a particular reporting period could be materially adversely affected.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A Common Stock trades on the New York Stock Exchange under the symbol "SKX".

#### HOLDERS

As of February 1, 2020, there were 85 holders of record of our Class A Common Stock (including holders who are nominees for an undetermined number of beneficial owners) and 33 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.

#### DIVIDEND POLICY

##### *Share Repurchase Program*

On February 6, 2018, our Board of Directors authorized a share repurchase program (the "Share Repurchase Program"), pursuant to which we may, from time to time, purchase shares of our Class A Common Stock, par value \$0.001 per share ("Class A Common Stock"), for an aggregate repurchase price not to exceed \$150.0 million. The Share Repurchase Program expires on February 6, 2021. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act, subject to market conditions, applicable legal requirements and other relevant factors. The Share Repurchase Program does not obligate us to acquire any particular amount of shares of Class A Common Stock and the program may be suspended or discontinued at any time.

#### ISSUER PURCHASES OF EQUITY SECURITIES

The table below summarizes the number of shares of our Class A Common Stock that were repurchased during the three months ended December 31, 2019.

Month Ended	Total Number of Shares Purchased <sup>(1) (2)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased from Certain Employees <sup>(1)</sup>	Total Number of Shares Purchased under the Share Repurchase Program <sup>(2)</sup>	Maximum Dollar Value of Shares that May Yet Be Purchased under the Program
October 31, 2019.....	—	—	—	—	\$ 20,003,000
November 30, 2019.....	14,659	\$ 37.98	14,659	—	\$ 20,003,000
December 31, 2019.....	289	\$ 41.40	289	—	\$ 20,003,000
Total.....	<u>14,948</u>		<u>14,948</u>	<u>—</u>	<u>\$ 20,003,000</u>

- (1) *We repurchased 14,948 shares from certain employees to facilitate income tax withholding payments pertaining to restricted stock awards that vested during the three months ended December 31, 2019. Such shares were not repurchased pursuant to a publicly announced plan or program.*
- (2) *As announced on February 6, 2018, our Board of Directors approved the Share Repurchase Program, authorizing the repurchase of up to an aggregate of \$150.0 million of our Class A Common Stock. The Share Repurchase Program allows us to repurchase shares of Class A Common Stock from time to time for cash in the open market or privately negotiated transactions or other transactions, as market and business conditions warrant and subject to applicable legal requirements. The share repurchase program does not obligate us to repurchase any particular amount of Class A Common Stock, and it could be modified, suspended or discontinued at any time.*

#### EQUITY COMPENSATION PLAN INFORMATION

Our equity compensation plan information is provided as set forth in Part III, Item 12 of this annual report on Form 10-K.

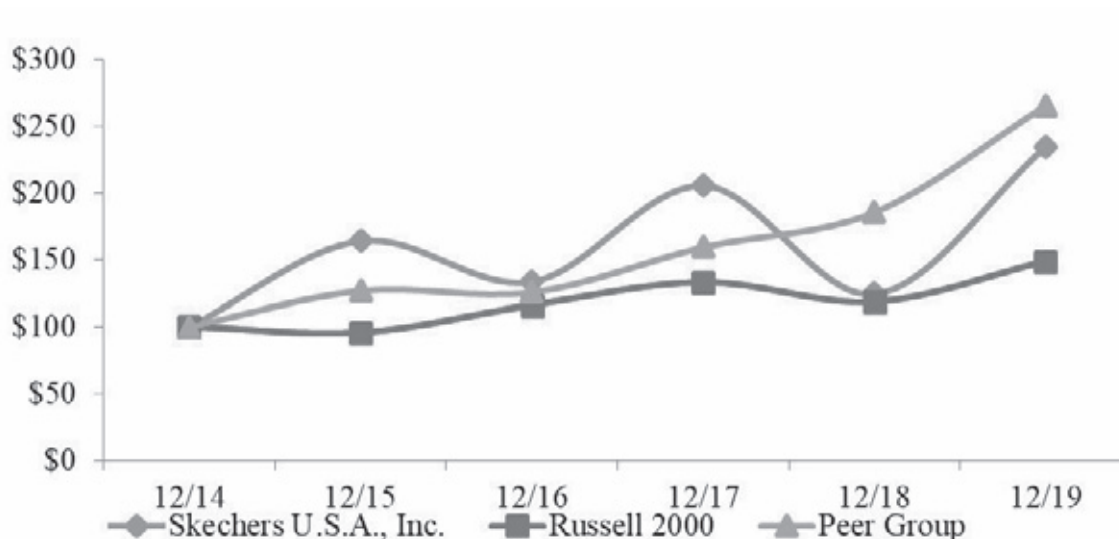


PERFORMANCE GRAPH

The following graph demonstrates the total return to stockholders of our Class A Common Stock from December 31, 2014 to December 31, 2019, relative to the performance of the Russell 2000 Index, which includes our Class A Common Stock, and the peer group index, which is believed to include companies engaged in businesses similar to ours. The peer group index consists of six companies: Nike, Inc., adidas AG, Steven Madden, Ltd., Wolverine World Wide, Inc., Crocs, Inc., and Deckers Outdoor Corporation.

The graph assumes an investment of \$100 on December 31, 2014 in each of our Class A Common Stock and the stocks comprising each of the Russell 2000 Index and the customized peer group index. Each of the indices assumes that all dividends were reinvested. The stock performance of our Class A Common Stock shown on the graph is not necessarily indicative of future performance. We will neither make nor endorse any predictions as to our future stock performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURNS



(in dollars)	12/14	12/15	12/16	12/17	12/18	12/19
Skechers U.S.A., Inc. ....	100.00	164.04	133.47	205.47	124.29	234.52
Russell 2000.....	100.00	95.59	115.95	132.94	118.30	148.49
Peer Group .....	100.00	126.89	125.70	159.31	185.53	265.22



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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report on Form 10-K.

This section of this Form 10-K generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. Discussions of 2017 items and year-to-year comparisons that are not included in this Form 10-K can be found in "*Part II—Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations*" and "*—Liquidity and Capital Resources*" in our annual report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on March 1, 2019.

### GENERAL

We design, market and sell lifestyle and performance 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, mid-tier retailers, boutiques, our own direct-to-consumer stores and e-commerce sites, and distributor and licensee-owned international retail stores. Our objective is to design and market quality footwear that is comfortable, stylish and innovative, leverage our brand name and profitably grow our business across all channels of distribution.

Our operations are organized along our distribution channels, and we have the following three reportable sales segments: domestic wholesale sales, international wholesale sales, which include international direct subsidiary sales and international distributor sales, and direct-to-consumer sales, which includes our company-owned retail stores and direct-to-consumer websites. We evaluate segment performance based primarily on sales and gross margins. See detailed segment information in Note 20 – Segment and Geographic Reporting in our Consolidated Financial Statements included under Part II, Item 8 of this annual report.

### FINANCIAL OVERVIEW

Our sales for 2019 increased \$578.0 million, or 12.5%, to \$5,220.1 million, compared to sales of \$4,642.1 million in 2018. The increase in sales primarily came from our international subsidiaries and retail businesses. Our international wholesale and international retail businesses represented 57.9% of our sales during 2019. During 2019, earnings from operations increased \$80.6 million, or 18.4%, to \$518.4 million compared to \$437.8 million in 2018. Net earnings attributable to Skechers U.S.A., Inc. were \$346.6 million for 2019, an increase of \$45.6 million, or 15.1%, compared to net earnings of \$301.0 million in 2018. Diluted earnings per share for 2019 were \$2.25, which reflected a 17.2% increase from the \$1.92 diluted earnings per share reported in the prior year. Our working capital was \$1,581.4 million at December 31, 2019, which was a decrease of \$40.5 million from working capital of \$1,621.9 million at December 31, 2018. Our cash and cash equivalents decreased \$47.3 million to \$824.9 million at December 31, 2019 from \$872.2 million at December 31, 2018. The decrease in cash and cash equivalents was primarily the result of the purchase of the minority interest of our India joint venture for \$82.9 million and our investment of \$100.7 million for the acquisition of our Mexico joint venture, which were partially offset by our increased net earnings and increased accounts payable.

### 2019 OVERVIEW

In 2019, we focused on developing comfortable product that is reflective of our expansive audience and changing trends, growing our position in our domestic wholesale accounts, growing our international market share, opening retail stores in key locations worldwide, continuing to develop our global infrastructure, and balance sheet and expense management.

**New product design and delivery.** Our success depends on our ability to design and deliver comfortable, stylish, affordable products to consumers across a broad range of demographics. In 2019, we focused on fresh updates to our core and existing styles as well as broadening our reach through collaborations, limited edition collections, and new innovations such as Arch Fit and Hyper Burst.

**Grow our domestic business.** In 2019, we delivered updates to our core and existing styles, launched collaborations with partners, including Atmos and Opening Ceremony, as well as with well-known properties including Scooby Doo, Doug the Pug and Grumpy Cat, and introduced the award-winning Hyper Burst technology in our Skechers Performance line. In addition, we updated our successful Skechers GO Walk collection by launching Skechers GO Walk Smart and Skechers GO Walk 5. In 2019, we remained a leading source for walking, work, casual lifestyle, sandals, and casual athletic footwear.

**Further develop our international businesses.** During 2019, we continued to focus on growing our international sales by expanding the products we deliver to our international markets and growing our presence with wholesale partners with solutions like shop-in-shops and focal walls. We also purchased the outstanding minority interest of our India joint venture and completed an investment into a new joint venture in Mexico.

**Expand Skechers global direct-to-consumer base.** Believing that Skechers retail stores are effective and profitable brand building tools, we continued to open Skechers stores around the world, both company and third-party owned. We also continued to enhance our e-commerce solutions by investing in people and technology to drive growth in the on-line channel.

**Develop our global infrastructure.** In 2019, we continued constructing a new China distribution center to support our operations in the region, and we expect it to be completed in 2020. We also added additional capacity in our European Distribution Center and commenced planning to expand our Rancho Belago distribution center to support the growth of our domestic wholesale and direct-to-consumer business.

**Balance sheet and expense management.** During 2019, we continued to focus on managing our balance sheet and bringing our marketing expenses and general and administrative expenses in line with expected sales. During 2019, we returned \$30.0 million to stockholders by repurchasing 1.0 million shares of our Class A Common Stock. We also expanded and extended our existing credit facility during 2019 to provided additional liquidity to support our global growth.

## OUTLOOK FOR 2020

During 2020, we will continue to innovate our lifestyle and performance product lines by developing new styles and expanding into new categories. This includes building on our fit offerings with the addition of Stretch Knit and Arch Fit; our Performance offering with new versions of GO Walk and the addition of Hyper Burst and Max Cushioning; and our heritage collection with Street Cleats, Skechers D'Lites, Skechers Stamina, and Skechers Energy, among others. The global footwear market is competitive, but we believe global demand for the brand will remain strong due to our strategy of delivering style, comfort, innovation and quality that is affordably priced. We believe appeal for our product is broad and our marketing is effective and impactful. We will continue to use local and global brand ambassadors—including sports icons Clayton Kershaw, Tony Romo, and Howie Long for men; Brooke Burke for women; elite athletes Meb Keflezighi, Lionel Sanders and Edward Cheserek; and professional golfers Matt Kuchar, Brooke Henderson, and Colin Montgomerie. We expect to continue to increase our shelf space, and to open another 115 to 125 company-owned retail locations worldwide and to make investments in our direct-to-consumer technology infrastructure. In addition, we expect to complete the construction of our new distribution center in China, begin the expansion of our distribution center in the United States, and continue the construction of our corporate headquarters.

## DEFINITIONS

### *Net sales*

Reference in this annual report to “Sales” refers to Skechers’ net sales reported under generally accepted accounting principles in the United States.

### *Comparable sales*

As part of our discussion of our results of operations, we disclose comparable store sales, for which we typically include the impact of direct-to-consumer sales on our company-owned websites. With respect to any reporting period, we define comparable store sales as sales for stores that are owned and operated for at least thirteen full calendar months as of the last day of any calendar month within the current reporting period, and include only those sales for each of the comparable full calendar months that the store is open within each period. When a store closes at the end of a lease during a reporting period, we include in comparable store sales the sales for the number of comparable full calendar months that the store was open within the reporting period. We include new stores in comparable store sales commencing with the fourteenth month of operations because we believe it provides a more meaningful comparison of operating results of months with stabilized operations, and excludes a new store’s first full calendar month of operations when operating results may not be representative for a variety of reasons.

Definitions and calculations of comparable store sales differ among companies in the retail industry, and therefore comparable store sales disclosed by us may not be comparable to the metrics disclosed by other companies.

### ***Cost of sales or Gross margins***

Our cost of sales includes the cost of footwear purchased from our manufacturers, duties, tariffs, quota costs, inbound freight (including ocean, air and freight from the dock to our distribution centers), broker fees and storage costs. Because we include expenses related to our distribution network in general and administrative expenses, while some of our competitors may include expenses of this type in cost of sales, our gross margins may not be comparable and we may report higher gross margins than some of our competitors in part for this reason.

### ***Selling expenses***

Selling expenses consist primarily of the following: sales representative sample costs, sales commissions, trade shows, advertising and promotional costs, which may include television and ad production costs, and point-of-purchase costs.

### ***General and administrative expenses***

General and administrative expenses consist primarily of the following: salaries, wages and related taxes, various overhead costs associated with our corporate staff, stock-based compensation, domestic and international retail operations, non-selling related costs of our international operations, costs and expenses related to our distribution network for our Rancho Belago, European and other foreign distribution centers, professional fees related to both legal and accounting services, insurance, depreciation and amortization, asset impairment and legal settlements, among other expenses. Our distribution network-related costs are included in general and administrative expenses and are not allocated to specific segments.

## **YEAR ENDED DECEMBER 31, 2019 COMPARED TO THE YEAR ENDED DECEMBER 31, 2018**

### ***Sales***

Sales for 2019 were \$5,220.1 million, which was an increase of \$578.0 million, or 12.5%, compared to sales of \$4,642.1 million for 2018. The increase in sales primarily came from our international wholesale and retail businesses.

Our domestic wholesale sales decreased \$12.0 million, or 1.0%, to \$1,247.6 million for 2019 compared to \$1,259.6 million for 2018. The decrease in our domestic wholesale segment's sales was the result of a 1.9% unit sales volume decrease, to 57.0 million pairs in 2019 from 58.1 million pairs in 2018, which was partially offset by an increase in average selling price per pair of 1.9%, to \$21.67 per pair for 2019 from \$21.26 in 2018. This sales decrease was attributable to lower sales in our Women's and Men's Go, Kids and YOU divisions during 2019. The average selling price per pair increase within the domestic wholesale segment was primarily the result of product sales mix.

Our international wholesale segment sales increased \$407.8 million, or 19.8%, to \$2,462.6 million for 2019 compared to sales of \$2,054.8 million for 2018. Our international wholesale sales consist of wholesale sales by our foreign subsidiaries, sales from our China joint venture and sales to our distributors, who in turn sell to retailers in various international regions where we do not sell directly. Direct sales by our foreign subsidiaries, including our joint ventures, increased \$325.8 million, or 18.9%, to \$2,047.3 million for 2019 compared to sales of \$1,721.5 million for 2018. The largest sales increases during the year came from our subsidiaries in the United Kingdom, Germany, India and Spain, and our joint ventures in China, Korea and Mexico. The increases are primarily attributable to sales of our Men's and Women's Sport, Go, BOBS, and Men's U.S.A., lines. Our distributor sales increased \$82.0 million, or 24.6%, to \$415.3 million for 2019, compared to sales of \$333.3 million for 2018. This was primarily attributable to increased sales to our distributors in Russia, Indonesia and United Arab Emirates.

Our retail segment sales increased \$182.2 million to \$1,509.9 million for the year ended December 31, 2019, a 13.7% increase over sales of \$1,327.7 million for 2018. The increase in retail sales was primarily attributable to increased comparable sales of 5.4%, which included increased sales within our Men's and Women's Sport, Men's U.S.A. and Work divisions and a net increase of 27 domestic and 20 international stores compared to 2018. For the year ended December 31, 2019, our domestic retail sales, increased 9.4% compared to 2018, which was primarily attributable to increased domestic store count and to positive comparable domestic store sales of 4.8%, and our international retail store sales increased 22.0% compared to 2018, which was attributable to increased international store count and positive comparable international store sales of 7.0%.

We believe that we have established our presence in most major domestic retail markets. We had 497 domestic stores and 302 international retail stores as of February 1, 2020, and we currently plan to open approximately 115 to 125 stores in 2020. During 2019, we opened one domestic factory outlet store, 32 domestic warehouse outlet stores, 15 international concept stores, 11 international factory outlet stores. During 2019, we closed five domestic concept stores, one domestic outlet store and six international concept stores. We periodically review all of our stores for impairment. During 2019 and 2018, we did not record an impairment charge related to our retail stores.



### ***Gross profit***

Gross profit for 2019 increased \$267.6 million, or 12.0%, to \$2,491.1 million from \$2,223.5 million for 2018. Gross profit, as a percentage of sales, or gross margin, decreased slightly to 47.7% in 2019 from 47.9% for 2018. Our domestic wholesale segment gross profit decreased \$10.4 million, or 2.2%, to \$457.9 million for 2019 from \$468.3 million for 2018, which was primarily attributable due to lower sales. Domestic wholesale gross margins decreased to 36.7% for 2019 from 37.2% for 2018 primarily due to increased tariffs.

Gross profit for our international wholesale segment increased \$156.9 million, or 16.1%, to \$1,133.6 million for 2019 compared to \$976.7 million for 2018. Gross margins for the international wholesale segment were 46.0% for 2019 compared to 47.5% for 2018. Gross margins for our international direct subsidiary sales, including our joint ventures, were 50.1% for 2019 as compared to 51.7% for 2018. The decrease was primarily attributable to promotional efforts to clear seasonal inventory in select markets. Gross margins for our international distributor sales were 25.8% for 2019 as compared to 25.9% for 2018.

Gross profit for our direct-to-consumer segment increased \$121.1 million, or 15.6%, to \$899.6 million for 2019 as compared to \$778.5 million for 2018. Gross margins for all stores were 59.6% for 2019 compared to 58.6% for 2018. Gross margins for our domestic direct-to-consumer sales were 62.5% for 2019 as compared to 61.3% for 2018 primarily due to higher average selling prices. Gross margins for our international direct-to-consumer sales were 54.6% for 2019 as compared to 53.6% for 2018 primarily due to favorable product mix. The increase in our domestic retail margins was primarily attributable to higher average selling prices and lower average product costs.

### ***Selling expenses***

Selling expenses increased by \$19.5 million, or 5.6%, to \$369.9 million for 2019 from \$350.4 million for 2018. As a percentage of sales, selling expenses were 7.1% and 7.5% for 2019 and 2018, respectively. The increase in selling expenses was primarily the result of higher advertising expense of \$20.3 million.

### ***General and administrative expenses***

General and administrative expenses increased by \$169.3 million, or 11.6%, to \$1,625.3 million for 2019 from \$1,456.0 million for 2018. As a percentage of sales, general and administrative expenses were 31.1% and 31.4% for 2019 and 2018, respectively. The increase in general and administrative expenses was primarily attributable to \$61.1 million related to supporting our growing international operations, particularly in China and Mexico, increased store operating costs of \$78.4 million primarily attributable to an additional net 47 stores, and increased domestic wholesale general and administrative expenses of \$29.8 million primarily due to increased distribution costs of \$26.8 million as a result of increased direct-to-consumer sales.

### ***Other income (expense)***

Interest income was \$11.8 million for 2019 compared to \$10.1 million for 2018. The increase in interest income was primarily due to higher average cash and investment balances and higher effective interest rates. Interest expense for 2019 increased \$1.7 million to \$7.5 million compared to \$5.8 million in 2018. Interest expense increased primarily due to increased interest owed to our foreign manufacturers. Loss on foreign currency transactions for 2019 was \$5.7 million compared to a \$9.2 million loss in 2018. This decreased foreign currency exchange loss was primarily attributable to the impact of a stronger U.S. dollar on our intercompany balances in our foreign subsidiaries.

### ***Income taxes***

Our provision for income tax expense and our effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (loss) before income taxes. In the non-U.S. jurisdictions in which we have operations, the applicable statutory rates are generally significantly lower than in the U.S., ranging from 0% to 34.6%. Our provision for income tax expense was calculated using the applicable statutory income tax rate for each jurisdiction applied to our pre-tax earnings (loss) in each jurisdiction, while our effective tax rate is calculated by dividing income tax expense by earnings (loss) before income taxes.

Our earnings (loss) before income taxes and income tax expense for 2019, 2018 and 2017 are as follows (in thousands):

<u>Income tax jurisdiction</u>	Years Ended December 31,					
	2019		2018		2017	
	Earnings (loss) before income taxes	Income tax expense	Earnings (loss) before income taxes	Income tax expense (benefit)	Earnings (loss) before income taxes	Income tax expense
United States <sup>(1)</sup> .....	\$ 4,999	\$ 24,887	\$ 16,597	\$ 11,500	\$ 25,628	\$ 113,607
Peoples Republic of China (“China”).....	121,702	30,320	89,429	19,595	95,668	12,971
Hong Kong.....	50,131	4,303	48,352	8,106	17,778	5,030
Jersey <sup>(2)</sup> .....	245,561	—	213,327	—	198,048	—
Non-benefited loss operations <sup>(3)</sup> .....	(7,685)	1,184	(11,422)	(3,387)	(17,350)	3,306
Other jurisdictions <sup>(4)</sup> .....	101,297	28,059	75,601	24,797	64,488	14,242
Earnings before income taxes .....	<u>\$ 516,005</u>	<u>\$ 88,753</u>	<u>\$ 431,884</u>	<u>\$ 60,611</u>	<u>\$ 384,260</u>	<u>\$ 149,156</u>
Effective tax rate <sup>(5)</sup> .....		17.2%		14.0%		38.8%

<sup>(1)</sup> United States income tax expense for 2017 includes a provisional one-time \$99.9 million tax expense related to the enactment of the Tax Act on December 22, 2017.

<sup>(2)</sup> Jersey does not assess income tax on corporate net earnings.

<sup>(3)</sup> Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being reported because of the provision of offsetting valuation allowances: Barbados, Brazil, China, India, Israel, Japan, Macau, Panama, Romania, Thailand, and South Korea.

<sup>(4)</sup> Consists of entities in the following tax jurisdictions, each of which comprises not more than 5% of consolidated earnings (loss) before taxes in the period being reported: Albania, Austria, Belgium, Bosnia & Herzegovina, Canada, Chile, Colombia, Costa Rica, France, Germany, Hungary, India, Israel, Italy, Kosovo, Macau, Macedonia, Malaysia, Mexico, Montenegro, Netherlands, Panama, Peru, Poland, Portugal, Serbia, Singapore, Spain, Switzerland, Vietnam, and the United Kingdom.

<sup>(5)</sup> The effective tax rate is calculated by dividing income tax expense by earnings before income taxes.

For 2019, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 25%, primarily because of earnings from foreign operations in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2019, as reflected in the table above, earnings (loss) before income taxes in the U.S. were \$5.0 million, with income tax expense of \$24.9 million, which is an average rate of 498%. This rate is higher than the 25% U.S. statutory rate primarily due to the taxation on global intangible low-taxed income (“GILTI”), in the U.S. Earnings (loss) before income taxes in non-U.S. jurisdictions were \$511.0 million, with an aggregate income tax expense of \$63.9 million, which is an average rate of 12.5%. Combined, this results in consolidated earnings before income taxes for the period of \$516.0 million, and consolidated income tax expense for the period of \$88.8 million, resulting in an effective tax rate of 17.2%. For 2019, of our \$511.0 million in earnings before income tax earned outside the U.S., \$245.6 million was earned in Jersey, which does not impose a tax on corporate earnings. In Jersey, earnings before income taxes increased by \$32.3 million to \$245.6 million in 2019 from \$213.3 million in 2018. This increase was primarily attributable to an increase in international sales, which resulted in an increase in earnings before income taxes in Jersey from royalties and commissions under the terms of our inter-subsiary agreements. In addition, there were foreign losses of \$7.6 million for which no tax benefit was recognized during the year ended December 31, 2019 because of the provision of offsetting valuation allowances. Individually, none of the other foreign jurisdictions included in “Other jurisdictions” in the table above had earnings greater than 5% of our consolidated earnings (loss) before taxes in any of the years shown.

As of December 31, 2019, we had approximately \$824.9 million in cash and cash equivalents, of which \$566.4 million, or 68.7%, was outside the U.S. Of the \$566.4 million held by our non-U.S. subsidiaries, approximately \$220.3 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable non-U.S. income and withholding taxes in excess of the amounts accrued in our consolidated financial statements as of December 31, 2019.

We believe our cash and cash equivalents and investments held in the U.S. and cash provided from operations are sufficient to meet our liquidity needs in the U.S. for the next twelve months, and we do not expect to repatriate any of the funds presently designated as indefinitely reinvested outside the U.S. We have provided for the tax impact of expected distributions from our joint venture in China as well as from our subsidiary in Chile to our intermediate parent company in Switzerland. Otherwise, because of the need for cash for operating capital and continued overseas expansion, we do not foresee the need for any of our other foreign subsidiaries to distribute funds up to an intermediate foreign parent company in any form of taxable dividend. Under current applicable tax laws, if we chose to repatriate some or all of the funds we have designated as indefinitely reinvested outside the U.S., the amount repatriated would not be subject to U.S. income taxes but may be subject to applicable non-U.S. income and withholding taxes, and to certain state income taxes.

### ***Non-controlling interest in net income and loss of consolidated subsidiaries***

Net earnings attributable to non-controlling interest for 2019 increased \$10.5 million to \$80.7 million as compared to \$70.2 million for 2018 due to increased profitability of our joint ventures. Non-controlling interest represents the share of net earnings or loss that is attributable to our joint venture partners.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Cash Flows***

Our working capital at December 31, 2019 was \$1,581.4 million, a decrease of \$40.5 million from working capital of \$1,621.9 million at December 31, 2018. Our cash and cash equivalents at December 31, 2019 was \$824.9 million compared to \$872.2 million at December 31, 2018. This decrease in cash and cash equivalents of \$47.3 million, after consideration of the effect of exchange rates, was the result of capital expenditures of \$236.1 million, increased receivables of \$118.4 million and acquisitions of \$100.7 million, which was partially offset by our net earnings of \$427.3 million, and increased accounts payable of \$154.5 million. Our primary sources of operating cash are collections from customers on wholesale and retail sales. Our primary uses of cash are inventory purchases, selling, general and administrative expenses and capital expenditures.

### ***Operating Activities***

Net cash provided by operating activities was \$426.6 million for 2019 and \$568.6 million for 2018. On a comparative year-to-year basis, the \$142.0 million decrease in cash flows from operating activities in 2019 primarily resulted from increased inventories of \$171.9 million.

### ***Investing Activities***

Net cash used in investing activities was \$344.1 million for 2019 as compared to \$319.4 million in 2018. The increase in cash used in investing activities in 2019 as compared to 2018 was due to net cash used in the acquisition of an interest in our Mexico joint venture of \$100.7 million and increased capital expenditures of \$93.1 million, offset by a net decrease in investment purchases of \$163.5 million. Capital expenditures for 2019 were approximately \$236.1 million, which primarily consisted of \$51.9 million for new store openings and remodels, \$53.0 million for the construction for our China distribution center, \$33.8 million to support our international wholesale operations, \$19.6 million for the upgrades to our domestic distribution center, and \$15.6 million for new retail locations in our China joint venture. This compares to capital expenditures of \$143.0 million in the prior year, which primarily consisted of \$50.0 million for new store openings and remodels, \$28.8 million for land for our China distribution center, \$20.6 million to support our international wholesale operations, \$10.5 million for new retail locations in our China joint venture, and \$17.6 million for the upgrades to our domestic distribution center. We expect our ongoing capital expenditures for 2020 to be between \$325.0 million and \$350.0 million, which includes completing the construction of our China distribution center; the expansion of our U.S. distribution facility; opening 115 to 125 new company-owned Skechers stores and 20 to 30 store remodels, expansions and relocations; the expansion of our corporate headquarters; and technology investments, primarily in our direct-to-consumer business. We believe our current cash, investments, operating cash flows, available lines of credit and current financing arrangements should be adequate to fund these capital expenditures, although we may seek additional funding for all or a portion of these expenditures.

### ***Financing Activities***

Net cash used in financing activities was \$132.0 million during 2019 compared to \$119.7 million during 2018. The increase in cash used by financing activities was primarily attributable to the purchases of the non-controlling interest of our India joint venture of \$82.9 million, partially offset by a decrease of \$70.0 million in repurchases of shares of our Class A Common Stock.

## ***Capital Resources and Prospective Capital Requirements***

### ***Share Repurchase Program***

On February 6, 2018, our Board of Directors authorized the Share Repurchase Program, pursuant to which we may, from time to time, purchase shares of our Class A Common Stock for an aggregate repurchase price not to exceed \$150.0 million. The Share Repurchase Program expires on February 6, 2021. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act, subject to market conditions, applicable legal requirements and other relevant factors. The Share Repurchase Program does not obligate us to acquire any particular amount of shares of Class A Common Stock and the program may be suspended or discontinued at any time. As of December 31, 2019, there was \$20.0 million available under the Share Repurchase Program.

## *Acquisitions*

In the first quarter of 2019, we purchased the minority interest in our India joint venture for \$82.9 million, which made our India joint venture entity a wholly-owned subsidiary.

In the second quarter of 2019, we purchased a 60% interest in Manhattan SKMX, de R.L. de C.V. (“Skechers Mexico”) for a total cash consideration of \$100.7 million, net of cash acquired. Skechers Mexico is a joint venture that operates and generates sales in Mexico. As a result of this purchase, Skechers Mexico became a majority-owned subsidiary and the results are consolidated in our consolidated financial statements from the date of acquisition. The formation of the joint venture provides significant merchandising, supply chain and retail operations in Mexico. We are in the final process of completing the purchase price allocation, which will be completed by April 1, 2020. However, the finalization may result in changes in the assets acquired and tax-related items. Pro forma results of operations have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to our consolidated financial statements.

## *Financing Arrangements*

On November 21, 2019, we entered into a \$500.0 million senior unsecured revolving credit facility, which matures on November 21, 2024 (the “2019 Credit Agreement”), with Bank of America, N.A., as administrative agent and joint lead arranger, HSBC Bank USA, N.A. and JPMorgan Chase Bank, N.A., as joint lead arrangers, and other lenders. The 2019 Credit Agreement replaced our then existing \$250.0 million loan and security agreement dated June 30, 2015 with Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association that was set to expire on June 30, 2020. The 2019 Credit Agreement may be increased by up to \$250.0 million under certain conditions and provides for the issuance of letters of credit up to a maximum of \$100.0 million and swingline loans up to a maximum of \$25.0 million. We may use the proceeds from the 2019 Credit Agreement for working capital and other lawful corporate purposes. At our option, any loan (other than swingline loans) will bear interest at a rate equal to (a) LIBOR plus an applicable margin between 1.125% and 1.625% based upon our Total Adjusted Net Leverage Ratio (as defined in the 2019 Credit Agreement) or (b) a base rate (defined as the highest of (i) the Federal Funds Rate plus 0.50%, (ii) the Bank of America prime rate and (iii) LIBOR plus 1.00%) plus an applicable margin between 0.125% and 0.625% based upon our Total Adjusted Net Leverage Ratio. Any swingline loan will bear interest at the base rate. We will pay a variable commitment fee of between 0.125% and 0.25% of the actual daily unused amount of each lender’s commitment, and will also pay a variable letter of credit fee of between 1.125% and 1.625% on the maximum amount available to be drawn under each issued and outstanding letter of credit, both of which are based upon our Total Adjusted Net Leverage Ratio. The 2019 Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including covenants that limit the ability of our company and our subsidiaries to, among other things, incur debt, grant liens, make certain acquisitions, dispose of assets, effect a change of control of our company, make certain restricted payments including certain dividends and stock redemptions, make certain investments or loans, enter into certain transactions with affiliates and certain prohibited uses of proceeds. The 2019 Credit Agreement also requires that the total adjusted net leverage ratio not exceed 3.75, except in the event of an acquisition in which case the ratio may be increased at our election to 4.25 for the quarter in which such acquisition occurs and for the next three quarters thereafter. The 2019 Credit Agreement provides for customary events of default including payment defaults, breaches of representations or warranties or covenants, cross defaults with certain other indebtedness to third parties, certain judgments/awards/orders, a change of control, bankruptcy and insolvency events, inability to pay debts, ERISA defaults, and invalidity or impairment of the 2019 Credit Agreement or any loan documentation related thereto, with, in certain circumstances, cure periods. Certain of the lenders party to the 2019 Credit Agreement, and their respective affiliates, have performed, and may in the future perform for us and our subsidiaries, various commercial banking, investment banking, underwriting and other financial advisory services, for which they have received, and will receive, customary fees and expenses. We paid origination, arrangement and legal fees of \$1.6 million on the 2019 Credit Agreement, which are being amortized to interest expense over the five-year life of the 2019 Credit Agreement. As of December 31, 2019, there was no outstanding amount under the 2019 Credit Agreement.

On September 29, 2018, through a Taicang subsidiary, we entered into a 700 million yuan loan agreement with China Construction Bank Corporation (the “China DC Loan Agreement”). The proceeds from the China DC Loan Agreement are being used to finance the construction of our distribution center in China. Interest is paid quarterly. The interest rate was 4.275% at December 31, 2019, which floats and is calculated from a reference rate provided by the People’s Bank of China. The interest rate may increase or decrease over the life of the loan and will be evaluated every 12 months. The principal of the loan will be repaid in semi-annual installments, beginning in 2021, of variable amounts as specified in the China DC Loan Agreement. The China DC Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that limit the ability of the joint venture to, among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Loan Agreement, and adjust the capital stock structure of the TC Subsidiary. The China DC Loan Agreement matures on September 28, 2023. The obligations of the TC Subsidiary under the China DC Loan Agreement are jointly and severally guaranteed by our Chinese joint venture. As of December 31, 2019, there was \$48.8 million outstanding under this credit facility, which is classified as long-term borrowings in our consolidated balance sheets.

On April 30, 2010, HF Logistics-SKX, LLC (the “JV”), through HF Logistics-SKX T1, LLC, a Delaware limited liability company and a wholly-owned subsidiary of the JV (“HF-T1”), entered into a construction loan agreement with Bank of America,



N.A., as administrative agent and as a lender, and Raymond James Bank, FSB, as a lender (collectively, the “Construction Loan Agreement”), pursuant to which the JV obtained a loan of up to \$55.0 million used for construction of the project on the property (the “Original Loan”). On November 16, 2012, HF-T1 executed a modification to the Construction Loan Agreement (the “Modification”), which added OneWest Bank, FSB as a lender, increased the borrowings under the Original Loan to \$80.0 million and extended the maturity date of the Original Loan to October 30, 2015. On August 11, 2015, the JV through HF-T1 entered into an amended and restated loan agreement with Bank of America, N.A., as administrative agent and as a lender, and CIT Bank, N.A. (formerly known as OneWest Bank, FSB) and Raymond James Bank, N.A., as lenders (collectively, the “Amended Loan Agreement”), which amends and restates in its entirety the Construction Loan Agreement and the Modification.

As of the date of the Amended Loan Agreement, the outstanding principal balance of the Original Loan was \$77.3 million. In connection with this refinancing of the Original Loan, the JV, our company and HF agreed that we would make an additional capital contribution of \$38.7 million to the JV for the JV through HF-T1 to use to make a payment on the Original Loan. The payment equaled our 50% share of the outstanding principal balance of the Original Loan. Under the Amended Loan Agreement, the parties agreed that the lenders would loan \$70.0 million to HF-T1 (the “New Loan”). The New Loan is being used by the JV through HF-T1 to (i) refinance all amounts owed on the Original Loan after taking into account the payment described above, (ii) pay \$0.9 million in accrued interest, loan fees and other closing costs associated with the New Loan and (iii) make a distribution of \$31.3 million less the amounts described in clause (ii) to HF. Pursuant to the Amended Loan Agreement, the interest rate on the New Loan is the LIBOR Daily Floating Rate (as defined in the Amended Loan Agreement) plus a margin of 2%. The maturity date of the New Loan is August 12, 2020, which HF-T1 has one option to extend by an additional 24 months, or until August 12, 2022, upon payment of a fee and satisfaction of certain customary conditions. On August 11, 2015, HF-T1 and Bank of America, N.A. entered into an ISDA master agreement (together with the schedule related thereto, the “Swap Agreement”) to govern derivative and/or hedging transactions that HF-T1 concurrently entered into with Bank of America, N.A. Pursuant to the Swap Agreement, on August 14, 2015, HF-T1 entered into a confirmation of swap transactions (the “Interest Rate Swap”) with Bank of America, N.A. The Interest Rate Swap has an effective date of August 12, 2015 and a maturity date of August 12, 2022, subject to early termination at the option of HF-T1, commencing on August 1, 2020. The Interest Rate Swap fixes the effective interest rate on the New Loan at 4.08% per annum. Pursuant to the terms of the JV, HF Logistics is responsible for the related interest expense on the New Loan, and any amounts related to the Swap Agreement. The full amount of interest expense related to the New Loan has been included in our consolidated statements of equity within non-controlling interests. The Amended Loan Agreement and the Swap Agreement are subject to customary covenants and events of default. Bank of America, N.A. also acts as a lender and syndication agent under our credit agreement dated June 30, 2015. We had \$63.7 million outstanding under the Amended Loan Agreement, which is included in short-term borrowings as of December 31, 2019.

As of December 31, 2019, outstanding short-term and long-term borrowings were \$121.2 million, of which \$115.4 million relates to loans for our domestic and China distribution center. Our long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. We were in compliance with all debt covenants related to our short-term and long-term borrowings as of the date of this annual report.

We believe that anticipated cash flows from operations, available borrowings under our credit agreement, existing cash and investments balances and current financing arrangements will be sufficient to provide us with the liquidity necessary to fund our anticipated working capital and capital requirements at least through March 31, 2021. Our future capital requirements will depend on many factors, including, but not limited to, the global economy and the outlook for and pace of sustainable growth in our markets, the levels at which we maintain inventory, sale of excess inventory at discounted prices, the market acceptance of our footwear, the number and timing of new store openings, the success of our international operations, costs associated with constructing our China distribution center and distribution center equipment, the costs of upgrading our domestic and European distribution centers, the amount and timing of share repurchases, the levels of advertising and marketing required to promote our footwear, the extent to which we invest in new product design and improvements to our existing product design, costs associated with constructing new corporate offices, and any potential acquisitions of other brands or companies. 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 of debt or equity. We have been successful in the past in raising additional funds through financing activities; however, we cannot be assured that additional financing will be available to us or that, if available, it can be obtained on past terms which have been favorable to our stockholders and us. Failure to obtain such financing could delay or prevent our current business plans, which could adversely affect our business, financial condition, results of operations and cash flows. 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 summarizes our material contractual obligations and commercial commitments as of December 31, 2019 (In thousands):

	<u>Total</u>	<u>Less than One Year</u>	<u>One to Three Years</u>	<u>Three to Five Years</u>	<u>More Than Five Years</u>
Short-term borrowings.....	\$ 5,789	\$ 5,789	\$ —	\$ —	\$ —
Long-term borrowings <sup>(1)</sup> .....	117,138	65,413	51,725	—	—
Operating lease obligations <sup>(2)</sup> .....	1,387,959	236,604	394,299	317,290	439,766
Purchase obligations <sup>(3)</sup> .....	1,290,431	1,290,431	—	—	—
Warehouse and equipment <sup>(4)</sup> .....	302,940	127,940	175,000	—	—
Corporate construction contracts <sup>(5)</sup> .....	152,450	85,162	67,288	—	—
Minimum payments related to other arrangements.....	51,120	22,266	28,854	—	—
Total <sup>(6)</sup> .....	<u>\$ 3,307,827</u>	<u>\$ 1,833,605</u>	<u>\$ 717,166</u>	<u>\$ 317,290</u>	<u>\$ 439,766</u>

<sup>(1)</sup> Amounts include anticipated interest payments based on interest rates currently in effect.

<sup>(2)</sup> Operating lease obligations consists primarily of real property leases for our retail stores, corporate offices, European and other international distribution centers. These leases frequently include options that permit us to extend beyond the terms of the initial fixed term. We currently expect to fund these commitments with cash flows from operations and existing cash and investment balances.

<sup>(3)</sup> Purchase obligations include the following: (i) accounts payable balances for the purchase of footwear of \$214.7 million, (ii) outstanding letters of credit of \$3.8 million and (iii) open purchase commitments with our foreign manufacturers for \$1,071.9 million. We currently expect to fund these commitments with cash flows from operations and existing cash and investment balances.

<sup>(4)</sup> Amounts include warehouse and equipment upgrades for our China and Rancho Belago distribution centers.

<sup>(5)</sup> During 2018, we entered into construction agreements with McCarthy Construction Company for the construction of additional corporate facilities in Manhattan Beach, California.

<sup>(6)</sup> Our consolidated balance sheet, as of December 31, 2019, included \$10.6 million in unrecognized tax benefits. Future payments related to these unrecognized tax benefits have not been presented in the table above, due to the uncertainty of the amounts, the potential timing of cash settlements with the tax authorities, and uncertainty whether any settlement would occur. In addition, the table above does not include payments of \$72.8 million over the next six years related to the provisional one-time tax liability recorded due to the Tax Act.

## OFF-BALANCE SHEET ARRANGEMENTS

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 that would have been established for the purpose of facilitating off-balance-sheet arrangements or for 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.

## CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. 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 and judgments on historical experience, other available information, and on other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities. In determining whether an estimate is critical, we consider whether the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment or the susceptibility of such matters to change, and whether the impact of the estimates and assumptions have a material impact on our financial condition or operating performance. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting estimates are affected by significant judgments used in the preparation of our consolidated financial statements: revenue recognition, allowance for bad debts, returns, sales allowances and customer chargebacks, inventory write-downs, valuation of intangibles and long-lived assets, goodwill, litigation reserves, and tax estimates and valuation of deferred income taxes.

**Revenue Recognition.** We derive income from the sale of footwear and royalties earned from licensing the Skechers brand. We recognize revenue when control of the promised goods or services is transferred to its customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. For North America, goods are shipped Free on Board (“FOB”) shipping point directly from our domestic distribution center in Rancho Belago, California. For international wholesale customers, product is shipped FOB shipping point, (i) direct from our distribution center in Liege, Belgium, (ii) to third-party distribution centers in Central America, South America and Asia, and (iii) directly from third-party manufacturers to our other international customers. For our distributor sales, the goods are generally delivered directly from the independent factories to third-party distribution centers or to our distributors’ freight forwarders on a Free Named Carrier (“FCA”) basis. We recognize revenue on wholesale sales upon shipment as that is when the customer obtains control of the promised goods. Related costs paid to third-party shipping companies are recorded as cost of sales and are accounted for as a fulfillment cost and not as a separate performance obligation. We generate retail revenues primarily from the sale of footwear to customers at retail locations or through our websites. For our in-store sales, we recognize revenue at the point of sale. For sales made through our websites, we recognize revenue upon shipment to the customer which is when the customer obtains control of the promised good. Sales and value added taxes collected from direct-to-consumer or retail customers are excluded from reported revenues.

We record accounts receivable at the time of shipment when our right to the consideration becomes unconditional. We typically extend credit terms to our wholesale customers based on their creditworthiness and generally we do not receive advance payments. Generally, wholesale customers do not have the right to return goods, however, we periodically decide to accept returns or provide customers with credits. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are provided for when related revenue is recorded. Retail and direct-to-consumer sales generally represent amounts due from credit card companies and are generally collected within a few days of the purchase. As such, we have determined that an allowance for doubtful accounts for direct-to-consumer sales is not necessary.

We earn royalty income from our licensing arrangements that qualify as symbolic licenses rather than functional licenses. Upon signing a new licensing agreement, we receive up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue is earned (i.e., as licensed sales are reported to us or on a straight-line basis over the term of the agreement). The first calculated royalty payment is based on actual sales of the licensed product or, in some cases, minimum royalty payments. We calculate and accrue estimated royalties based on the agreement terms and correspondence with the licensees regarding actual sales.

### *Judgments*

We considered several factors in determining that control transfers to the customer upon shipment of products. These factors include that legal title transfers to the customer, we have a present right to payment, and the customer has assumed the risks and rewards of ownership at the time of shipment. We accrue a liability for product returns at the time of sale based on our historical experience. We also accrue amounts for goods expected to be returned in salable condition. As of December 31, 2019 and December 31, 2018, our sales returns liability totaled \$86.5 million and \$67.3 million, respectively, and was included in accrued expenses in the consolidated balance sheets.

**Allowance for bad debts, returns, sales allowances and customer chargebacks.** We provide a reserve against our receivables for estimated losses that may result from our customers’ inability to pay. To minimize the likelihood of uncollectibility, customers’ credit-worthiness is reviewed and adjusted periodically in accordance with external credit reporting services, financial statements issued by the customer and our experience with the account. When a customer’s account becomes significantly past due, we generally place a hold on the account and discontinue further shipments to that customer, minimizing further risk of loss. We determine the amount of the reserve by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers’ countries or industries, historical losses and our customers’ credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this reserve. Allowances for returns, sales allowances and customer chargebacks are recorded against revenue. Allowances for bad debts are recorded to general and administrative expenses. Retail and direct-to-consumer receivables represent amounts due from credit card companies and are generally collected within a few days of the purchase. As such we have determined that no allowance for doubtful accounts is necessary.

We also reserve for potential disputed amounts or chargebacks from our customers. Our chargeback reserve is based on a collectability percentage based on factors such as historical trends, current economic conditions, and nature of the chargeback receivables. We also reserve for potential sales returns and allowances based on historical trends.

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 region. 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 our historical loss rate as a percentage of sales.

**Inventory write-downs.** Inventories are stated at the lower of cost or market. We continually review our inventory for excess and slow-moving inventory. Our review is based on inventory on hand, prior sales and expected net realizable value. Our analysis includes a review of inventory quantities on hand at period-end in relation to year-to-date sales, existing orders from customers and projections for sales in the foreseeable future. The net realizable value, or market value, is determined based on our estimate of sales prices of such inventory based on historical sales experience on a style-by-style basis. 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 depends primarily on our expectation of future consumer demand for our product. A misinterpretation or misunderstanding of future consumer demand for our product or of 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.

**Valuation of intangibles and long-lived assets.** When circumstances warrant, we test for recoverability of the asset groups' carrying value using estimates of undiscounted future cash flows based on the existing service potential of the applicable asset group in determining the fair value of each asset group. We evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount based on our assessment of the following events or changes in circumstances:

- macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets;
- industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics, or a change in the market for an entity's products or services, or a regulatory or political development;
- cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows;
- overall financial performance such as negative or declining cash flows, or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;
- other relevant entity-specific events such as changes in management, key personnel, strategy, customers, contemplation of bankruptcy, or litigation;
- events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit; and
- a sustained decrease in share price.

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. 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. We review all of our stores for impairment annually or more frequently if events or changes in circumstances require it. We prepare a summary of cash flows for each of our retail stores, to assess potential impairment of the fixed assets and leasehold improvements. Stores with negative cash flows which have been open in excess of twenty-four months are then reviewed in detail to determine whether impairment exists. Management reviews both quantitative and qualitative factors to assess whether a triggering event occurred. For the years ended December 31, 2019, 2018 and 2017, respectively we did not record an impairment charge.

**Goodwill.** We assess goodwill for impairment annually or more frequently if events or changes in circumstances require it. First, we determine if, based on qualitative factors, it is more likely than not that an impairment exists. Factors considered include historical financial performance, macroeconomic and industry conditions and the legal and regulatory environment. If the qualitative assessment indicates that it is more likely than not that an impairment exists, then a quantitative assessment is performed. The quantitative assessment requires an analysis of several best estimates and assumptions, including future sales and operating results, and other factors that could affect fair value or otherwise indicate potential impairment. We also consider the reporting units' projected ability to generate income from operations and positive cash flow in future periods, as well as perceived changes in consumer demand and acceptance of products, or factors impacting the industry generally. The fair value assessment could change materially if different estimates and assumptions were used.

**Litigation reserves.** Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in our consolidated financial statements. The likelihood of a material change in these estimated reserves would depend on additional information or new claims as they may arise as well as the favorable or unfavorable outcome of the particular litigation. Both the likelihood and amount (or range of loss) on a large portion of our 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 our remaining pending 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 potential liability could materially impact our results of operations and financial position.

**Tax estimates and valuation of deferred income taxes.** We record a valuation allowance when necessary 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 a valuation allowance.

## INFLATION

We do not believe that the 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 domestic and a portion of our international product sales, as well as 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 2019 and 2018, 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.

## RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note 1 — The Company and Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for recently adopted and recently issued accounting standards.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

**Interest rate fluctuations.** As of December 31, 2019, we have \$72.0 million and \$48.8 million of outstanding short-term and long-term borrowings, respectively, subject to changes in interest rates. A 200-basis point increase in interest rates would have increased interest expense by less than \$1.1 million for the year ended December 31, 2019. We do not expect any changes in interest rates to have a material impact on our financial condition or results of operations during the remainder of 2020. The interest rate charged on our domestic secured line of credit facility is based on the prime rate of interest, our domestic distribution center loan is based on the one month LIBOR and our China DC Loan is based on a reference rate provided by the People's Bank of China. Changes in these interest rates will have an effect on the interest charged on outstanding balances. As of December 31, 2019, there was no amount outstanding under our domestic credit facility, \$63.7 million outstanding on our domestic distribution center loan and \$51.3 million on our China DC Loan.

We have entered into derivative financial instruments such as interest rate swaps in order to mitigate our interest rate risk on our long-term debt. We will not enter into derivative transactions for speculative purposes. We had one derivative instrument in place as of December 31, 2019 to hedge the cash flows on our \$63.7 million variable rate debt on our domestic distribution center. This instrument was a variable to fixed derivative with a notional amount of \$63.7 million at December 31, 2019. Our average receive rate was one month LIBOR and the average pay rate was 2.08%. The rate swap agreement utilized by us effectively modifies our exposure to interest rate risk by converting our floating-rate debt to a fixed rate basis over the life of the loan, thus reducing the impact of interest-rate changes on future interest expense.

**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 subsidiaries' revenues, expenses, assets and liabilities. In addition, changes in foreign exchange rates may affect the value of our inventory commitments. Also, inventory purchases of our products may be impacted by fluctuations in the exchange rates between the U.S. dollar and the local currencies of the contract manufacturers, which could have the effect of increasing the 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.

Assets and liabilities outside the United States are located in regions where we have subsidiaries or joint ventures: Asia, Central America, Europe, the Middle East, North America, and South America. Our investments in foreign subsidiaries and joint ventures with a functional currency other than the U.S. dollar are generally considered long-term. Accordingly, we do not hedge these net investments. The fluctuation of foreign currencies resulted in a cumulative foreign currency translation gain of \$1.5 million and a cumulative foreign currency translation loss of \$16.7 million for the years ended December 31, 2019 and 2018, respectively, that are deferred and recorded as a component of accumulated other comprehensive income in stockholders' equity. A 200 basis point reduction in each of these exchange rates at December 31, 2019 would have reduced the values of our net investments by approximately \$52.0 million.



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

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE**

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## Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors

Skechers U.S.A., Inc.

Manhattan Beach, California

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Skechers U.S.A., Inc. (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 28, 2020 expressed an unqualified opinion thereon.

### Change in Accounting Method Related to Leases and Revenue

As discussed in Notes 1 and 3 to the consolidated financial statements, the Company has changed its method of accounting for leases during the year ended December 31, 2019 due to the adoption of the Accounting Standards Codification (“ASC”) – *Leases* (“ASC 842”).

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for revenue during the year ended December 31, 2018 due to the adoption of the ASC 606, “*Revenue from Contracts with Customers.*”

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

## **Adoption of ASC 842 Leases Accounting Standard**

As described in Notes 1 and 3 to the Company's consolidated financial statements, the Company adopted *ASC 842 - Leases*, on January 1, 2019, using the modified retrospective transition method. On the date of adoption, the Company recorded operating lease right-of-use assets totaling \$1,035.0 million.

We identified the adoption of ASC 842 as a critical audit matter. In implementing the new accounting standard, management's judgments included: (i) evaluation of the new accounting standard and establishment of new accounting policies and practices, (ii) configuring and implementing the new lease system module according to the new standard, (iii) determining the completeness and accuracy of lease contracts as of the adoption date, and (iv) evaluating inputs and assumptions used in recording the impact of the adoption including application of the practical expedients and the incremental borrowing rates. Auditing the Company's adoption of ASC 842 was especially challenging and complex due to the audit effort required to analyze the effect of the adoption on the significant number of lease contracts that are disaggregated in various countries and the specialized skills and knowledge needed to assess the reasonableness of the incremental borrowing rates.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of certain controls related to the Company's adoption of ASC 842 including controls over: (i) evaluation of the completeness and accuracy of lease contracts at the date of adoption, (ii) assessment of the accuracy of the lease system module's calculation of right-of-use assets, lease liabilities, and the associated amortization expense, and (iii) evaluation of the incremental borrowing rates.
- Evaluating management's accounting policies and practices, including the reasonableness of management's judgments and assumptions related to: (i) evaluation of the incremental borrowing rates, and (ii) evaluation of practical expedients.
- Testing a sample of lease contracts and relevant inputs and assumptions to evaluate management's calculation of the operating lease right-of-use asset and operating lease liability balances including testing the completeness and accuracy of relevant inputs and outputs including the terms of the leases used in the adoption of ASC 842.
- Testing the completeness and accuracy of lease contracts included in the new lease system module.
- Utilizing personnel with specialized knowledge and skill in valuation to assist in assessing the reasonableness of the Company's incremental borrowing rates at the adoption date.

## **Ongoing Accounting for Leases**

As described in Notes 1 and 3 to the Company's consolidated financial statements, the Company adopted ASC 842 on January 1, 2019. As of December 31, 2019, the Company's right-of-use asset was \$1,073.7 million and the lease liability was \$1,157.1 million. The Company operates in the United States and various foreign countries and continues to expand its operations. The Company continues to execute new lease contracts and negotiate extensions and amendments of existing lease contracts.

We identified the ongoing accounting for leases under ASC 842 as a critical audit matter. The Company's ongoing lease processes include the following: (i) ensuring the completeness of new leases, lease extensions and amendments, and (ii) assessment of incremental borrowing rate for each lease. Auditing these elements involved especially challenging auditor judgment and additional audit effort due to the significant number of leases that are disaggregated in various countries and the specialized skills and knowledge needed to assess the reasonableness of the incremental borrowing rates.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of certain controls relating to management's assessment of: (i) the completeness and accuracy of newly executed lease contracts, extensions, and amendments to existing lease contracts, and (ii) the determination of the incremental borrowing rates.
- Testing the appropriateness of the calculation of the right-of-use asset balance, operating lease liability and a corresponding amortization expense for a sample of lease contracts.
- Testing the completeness and accuracy of lease contracts included in the new lease system module.
- Utilizing personnel with specialized knowledge and skill in valuation to assist in assessing the reasonableness of the Company's incremental borrowing rates.

## Accounting for Income Taxes

As described in Note 16 to the Company's consolidated financial statements, the Company's total tax expense for the fiscal year ended December 31, 2019 was \$88.8 million, of which \$19.3 million represented U.S. Federal tax expense, \$5.6 million represented U.S. State tax expense, and the remaining \$63.9 million represented foreign tax expense. The Company operates in multiple jurisdictions worldwide through its wholly-owned subsidiaries and several joint ventures.

We identified accounting for the Company's income tax provision as a critical audit matter. The Company's tax provision processes include the following: (i) reporting and data accumulation from multiple foreign jurisdictions, (ii) evaluation of potential impact of recent changes in regulations and tax laws in the United States and various foreign jurisdictions, (iii) evaluation of assumptions in the Company's assessment of deferred tax assets and liabilities and related valuation allowances, (iv) development of complex assumptions used in transfer pricing studies and related determinations, and (v) assessment of repatriation of foreign earnings and cash balances. Auditing these elements involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of certain controls relating to management's assessment of: (i) completeness and accuracy of reporting and data accumulation from multiple foreign jurisdictions, (ii) potential implications of recent changes in regulations and tax laws in various foreign jurisdictions, and (iii) reasonableness of assumptions used in valuation allowances, transfer pricing studies and repatriation of foreign earnings and cash balances.
- Evaluating management's computation of deferred tax assets and liabilities and assessing the reasonableness of assumptions used in the Company's valuation allowances for certain significant jurisdictions.
- Assessing management's application of new and updated regulatory and legislative guidance and tax laws in various jurisdictions.
- Testing mathematical accuracy and computation of the tax provision and reviewing relevant source documents.
- Utilizing personnel with specialized skill and knowledge in transfer pricing to assist in evaluating the reasonableness of the Company's assumptions, inputs and overall conclusions reached related to transfer pricing studies over inter-company transactions.
- Utilizing personnel with specialized skill and knowledge in domestic and foreign taxes to assist in evaluating the reasonableness of the Company's assumptions, inputs and methods used to estimate certain tax reserves and appropriateness of conclusions reached related to foreign earnings repatriations.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2013.

Los Angeles, California

February 28, 2020

**SKECHERS U.S.A., INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except par values)

	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$ 824,876	\$ 872,237
Short-term investments .....	112,037	100,029
Trade accounts receivable, less allowances of \$24,106 in 2019 and \$25,616 in 2018 .....	645,303	501,913
Other receivables .....	53,932	55,683
Total receivables .....	699,235	557,596
Inventories .....	1,069,863	863,260
Prepaid expenses and other current assets .....	113,580	79,018
Total current assets .....	2,819,591	2,472,140
Property, plant and equipment, net .....	738,925	585,457
Operating lease right-of-use assets .....	1,073,660	—
Deferred tax assets .....	49,088	39,431
Long-term investments .....	94,589	93,745
Other assets, net .....	117,090	37,482
Total non-current assets .....	2,073,352	756,115
<b>TOTAL ASSETS</b> .....	<b>\$ 4,892,943</b>	<b>\$ 3,228,255</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current installments of long-term borrowings .....	\$ 66,234	\$ 1,666
Short-term borrowings .....	5,789	7,222
Accounts payable .....	764,844	679,553
Operating lease liabilities .....	191,129	—
Accrued expenses .....	210,235	161,781
Total current liabilities .....	1,238,231	850,222
Long-term borrowings, excluding current installments .....	49,183	88,119
Long-term operating lease liabilities .....	966,011	—
Deferred tax liabilities .....	322	451
Other long-term liabilities .....	103,089	100,188
Total non-current liabilities .....	1,118,605	188,758
Total liabilities .....	2,356,836	1,038,980
Commitments and contingencies .....		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued and outstanding .....	—	—
Class A Common Stock, \$0.001 par value; 500,000 shares authorized; 131,071 and 129,525 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively .....	131	129
Class B Common Stock, \$0.001 par value; 75,000 shares authorized; 22,408 and 23,983 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively .....	22	24
Additional paid-in capital .....	306,669	375,017
Accumulated other comprehensive loss .....	(29,993)	(31,488)
Retained earnings .....	2,037,836	1,691,276
Skechers U.S.A., Inc. equity .....	2,314,665	2,034,958
Non-controlling interests .....	221,442	154,317
Total stockholders' equity .....	2,536,107	2,189,275
<b>TOTAL LIABILITIES AND EQUITY</b> .....	<b>\$ 4,892,943</b>	<b>\$ 3,228,255</b>

See accompanying notes to consolidated financial statements.



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

	Years Ended December 31,		
	2019	2018	2017
Sales.....	\$ 5,220,051	\$ 4,642,068	\$ 4,164,160
Cost of sales.....	2,728,894	2,418,463	2,225,271
Gross profit.....	2,491,157	2,223,605	1,938,889
Royalty income.....	22,493	20,582	16,666
	<u>2,513,650</u>	<u>2,244,187</u>	<u>1,955,555</u>
Operating expenses:			
Selling.....	369,901	350,435	327,201
General and administrative.....	1,625,306	1,455,987	1,245,474
	<u>1,995,207</u>	<u>1,806,422</u>	<u>1,572,675</u>
Earnings from operations.....	518,443	437,765	382,880
Other income / (expense):			
Interest income.....	11,782	10,128	2,420
Interest expense.....	(7,509)	(5,847)	(6,677)
Other, net.....	(6,711)	(10,162)	5,637
Total other income / (expense).....	<u>(2,438)</u>	<u>(5,881)</u>	<u>1,380</u>
Earnings before income tax expense.....	516,005	431,884	384,260
Income tax expense.....	88,753	60,611	149,156
Net earnings.....	427,252	371,273	235,104
Less: Net earnings attributable to non-controlling interests.....	80,692	70,232	55,914
Net earnings attributable to Skechers U.S.A., Inc.....	<u>\$ 346,560</u>	<u>\$ 301,041</u>	<u>\$ 179,190</u>
Net earnings per share attributable to Skechers U.S.A., Inc.:			
Basic.....	<u>\$ 2.26</u>	<u>\$ 1.93</u>	<u>\$ 1.15</u>
Diluted.....	<u>\$ 2.25</u>	<u>\$ 1.92</u>	<u>\$ 1.14</u>
Weighted average shares used in calculating net earnings per share attributable to Skechers U.S.A, Inc.:			
Basic.....	<u>153,392</u>	<u>155,815</u>	<u>155,651</u>
Diluted.....	<u>154,151</u>	<u>156,450</u>	<u>156,523</u>

See accompanying notes to consolidated financial statements.

**SKECHERS U.S.A., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousands)

	Years Ended December 31,		
	2019	2018	2017
Net earnings .....	\$ 427,252	\$ 371,273	\$ 235,104
Other comprehensive income:			
Gain (loss) on foreign currency translation adjustment .....	1,298	(24,806)	19,119
Comprehensive income.....	428,550	346,467	254,223
Less: Comprehensive income attributable to noncontrolling interests.....	80,495	62,170	63,173
Comprehensive income attributable to Skechers U.S.A., Inc.....	<u>\$ 348,055</u>	<u>\$ 284,297</u>	<u>\$ 191,050</u>

See accompanying notes to consolidated financial statements.

**SKECHERS U.S.A., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
(In thousands)

	SHARES		AMOUNT		ACCUMULATED OTHER			SKECHERS U.S.A., INC. EQUITY	NON CONTROLLING INTERESTS	TOTAL STOCKHOLDERS' EQUITY
	CLASS A COMMON STOCK	CLASS B COMMON STOCK	CLASS A COMMON STOCK	CLASS B COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	COMPREHENSIVE INCOME (LOSS)			
Balance at January 1, 2017	130,386	24	130	24	\$ 419,038	\$ 1,211,045	\$ 1,603,633	\$ 81,881	\$ 1,685,514	
Net earnings	—	—	—	—	—	179,190	179,190	55,914	235,104	
Foreign currency translation adjustment	—	—	—	—	—	—	—	7,259	19,119	
Contribution from noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	46	46	
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	(25,953)	(25,953)	
Stock compensation expense	—	—	—	—	28,902	—	28,902	—	28,902	
Proceeds from issuance of common stock under the employee stock purchase plan	240	—	—	—	5,479	—	5,479	—	5,479	
Shares issued under the Incentive Award Plan	1,158	—	2	—	(2)	—	—	—	—	
Balance at December 31, 2017	131,784	24	132	24	\$ 453,417	\$ 1,390,235	\$ 1,829,064	\$ 119,147	\$ 1,948,211	
Net earnings	—	—	—	—	—	301,041	301,041	70,232	371,273	
Foreign currency translation adjustment	—	—	—	—	—	—	—	(8,062)	(24,806)	
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	(16,744)	(16,744)	(27,000)	(27,000)	
Stock compensation expense	—	—	—	—	30,468	—	30,468	—	30,468	
Proceeds from issuance of common stock under the employee stock purchase plan	222	—	—	—	5,297	—	5,297	—	5,297	
Shares issued under the Incentive Award Plan	1,018	—	1	—	(1)	—	—	—	—	
Shares redeemed for employee tax withholdings	(405)	—	(1)	—	(14,190)	—	(14,191)	—	(14,191)	
Conversion of Class B Common Stock into Class A Common Stock	562	—	(562)	—	—	—	—	—	—	
Repurchases of common stock	(3,656)	—	(3)	—	(99,974)	—	(99,977)	—	(99,977)	
Balance at December 31, 2018	129,525	24	129	24	\$ 375,017	\$ 1,691,276	\$ 2,034,958	\$ 154,317	\$ 2,189,275	
Net earnings	—	—	—	—	—	346,560	346,560	80,692	427,252	
Foreign currency translation adjustment	—	—	—	—	—	—	—	(197)	1,298	
Contribution from noncontrolling interest of consolidated entity	—	—	—	—	—	1,495	1,495	36,934	36,934	
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	(38,675)	(38,675)	
Purchase of non-controlling interest	—	—	—	—	(71,265)	—	(71,265)	(11,629)	(82,894)	
Stock compensation expense	—	—	—	—	41,076	—	41,076	—	41,076	
Proceeds from issuance of common stock under the employee stock purchase plan	261	—	—	—	6,173	—	6,173	—	6,173	
Shares issued under the Incentive Award Plan	1,117	—	1	—	(1)	—	—	—	—	
Shares redeemed for employee tax withholdings	(438)	—	—	—	(14,313)	—	(14,313)	—	(14,313)	
Conversion of Class B Common Stock into Class A Common Stock	1,575	(2)	2	(2)	—	—	—	—	—	
Repurchases of common stock	(969)	—	(1)	—	(30,018)	—	(30,019)	—	(30,019)	
Balance at December 31, 2019	131,071	22	131	22	\$ 306,669	\$ 2,037,836	\$ 2,314,665	\$ 221,442	\$ 2,536,107	

See accompanying notes to consolidated financial statements

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

	Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net earnings.....	\$ 427,252	\$ 371,273	\$ 235,104
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization.....	111,515	109,680	96,510
Provision for bad debts and returns .....	52,456	35,730	18,398
Share based compensation .....	41,076	30,468	28,902
Deferred income taxes .....	(7,568)	(9,767)	(3,947)
Other items, net.....	334	550	(2,187)
Net foreign currency adjustments .....	2,114	10,072	(7,749)
(Increase) decrease in assets:			
Receivables .....	(118,390)	(136,188)	(102,222)
Inventories.....	(171,903)	(7,212)	(158,628)
Other assets .....	(69,234)	(30,069)	(18,061)
Increase (decrease) in liabilities:			
Accounts payable .....	154,464	174,352	(12,806)
Other liabilities.....	4,436	19,663	86,023
Net cash provided by operating activities.....	<u>426,552</u>	<u>568,552</u>	<u>159,337</u>
Cash flows from investing activities:			
Capital expenditures .....	(236,111)	(143,036)	(135,976)
Acquisitions, net of cash acquired.....	(100,658)	—	—
Proceeds from sale of property, plant and equipment .....	5,547	—	(214)
Purchases of investments.....	(189,624)	(446,127)	(2,344)
Proceeds from sales and maturities of investments.....	<u>176,773</u>	<u>269,749</u>	<u>284</u>
Net cash used in investing activities .....	<u>(344,073)</u>	<u>(319,414)</u>	<u>(138,250)</u>
Cash flows from financing activities:			
Net proceeds from the issuances of common stock through employee stock purchase plan .....	6,173	5,297	5,479
Repayments on long-term debt.....	(4,108)	(1,683)	(1,783)
Proceeds from long-term debt .....	33,296	18,626	5,745
Proceeds (payments) on short-term borrowings.....	(1,433)	(787)	1,925
Payments for taxes related to net share settlement of equity awards .....	(14,313)	(14,191)	—
Repurchase of Class A Common Stock .....	(30,019)	(99,977)	—
Cash used for purchase of India non-controlling interest.....	(82,894)	—	—
Distributions to non-controlling interests of consolidated entity .....	(38,675)	(27,000)	(25,953)
Contribution from non-controlling interests of consolidated entity .....	—	—	46
Net cash used in financing activities .....	<u>(131,973)</u>	<u>(119,715)</u>	<u>(14,541)</u>
Effect of exchange rates on cash and cash equivalents.....	<u>2,133</u>	<u>6,383</u>	<u>11,349</u>
Net change in cash and cash equivalents .....	(47,361)	135,806	17,895
Cash and cash equivalents at beginning of the year .....	<u>872,237</u>	<u>736,431</u>	<u>718,536</u>
Cash and cash equivalents at end of the year.....	<u>\$ 824,876</u>	<u>\$ 872,237</u>	<u>\$ 736,431</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest.....	\$ 7,140	\$ 5,568	\$ 6,392
Income taxes, net .....	88,753	93,041	56,633
Non-cash transactions:			
Land and other assets contribution from non-controlling interest .....	36,934	—	—

See accompanying notes to consolidated financial statements.

**SKECHERS U.S.A., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019, 2018 and 2017**

**(1) THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) The Company and Basis of Presentation

Skechers U.S.A., Inc. and subsidiaries (the “Company”) designs, develops, markets and distributes footwear. The Company operates 497 domestic and 303 international retail stores and direct-to-consumer business as of December 31, 2019.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the consolidated financial statements in prior years to conform to the current year presentation.

(b) Use of Estimates

The Company 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. Significant areas requiring the use of estimates relate primarily to revenue recognition, allowance for bad debts, returns, sales allowances and customer chargebacks, inventory write-downs, valuation of intangibles and long-lived assets, goodwill, litigation reserves and valuation of deferred income taxes. Actual results could differ materially from those estimates.

(c) Revenue Recognition

In accordance with Accounting Standards Update (“ASU”) No. 2014-09, “*Revenue from Contracts with Customers*,” (“ASU 2014-09”), the Company recognizes revenue when control of the promised goods or services is transferred to its customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company derives income from the sale of footwear and royalties earned from licensing the Skechers brand. For North America, goods are shipped Free on Board (“FOB”) shipping point directly from the Company’s domestic distribution center in Rancho Belago, California. For international wholesale customers product is shipped FOB shipping point, (i) direct from the Company’s distribution center in Liege, Belgium, (ii) to third-party distribution centers in Central America, South America and Asia, (iii) directly from third-party manufacturers to other international customers. For distributor sales, the goods are generally delivered directly from the independent factories to third-party distribution centers or to distributors’ freight forwarders on a Free Named Carrier (“FCA”) basis. The Company recognizes revenue on wholesale sales upon shipment as that is when the customer obtains control of the promised goods. Related costs paid to third-party shipping companies are recorded as cost of sales and are accounted for as a fulfillment cost and not as a separate performance obligation. The Company generates direct-to-consumer revenues primarily from the sale of footwear to customers at retail locations or through the Company’s websites. For in-store sales, the Company recognizes revenue at the point of sale. For sales made through its websites, the Company recognizes revenue upon shipment to the customer which is when the customer obtains control of the promised good. Sales and value added taxes collected from direct-to-consumer customers are excluded from reported revenues.

The Company records accounts receivable at the time of shipment when the Company’s right to the consideration becomes unconditional. The Company typically extends credit terms to its wholesale customers based on their creditworthiness and generally does not receive advance payments. Generally, wholesale customers do not have the right to return goods, however, the Company periodically decides to accept returns or provide customers with credits. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are provided for when related revenue is recorded. Retail and direct-to-consumer sales represent amounts due from credit card companies and are generally collected within a few days of the purchase. As such, the Company has determined that an allowance for doubtful accounts for retail and direct-to-consumer sales is not necessary.

The Company earns royalty income from its licensing arrangements, which qualify as symbolic licenses rather than functional licenses. Upon signing a new licensing agreement, the Company receives up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue is earned (i.e., as licensed sales are reported to the Company or on a straight-line basis over the term of the agreement). The Company applies the sales-based royalty exception for the royalty income based on sales and recognizes revenue only when subsequent sales occur. The Company calculates and accrues estimated royalties based on the agreement terms and correspondence with the licensees regarding actual sales.



## *Judgments*

The Company considered several factors in determining that control transfers to the customer upon shipment of products. These factors include that legal title transfers to the customer, the Company has a present right to payment, and the customer has assumed the risks and rewards of ownership at the time of shipment. The Company accrues a liability for product returns at the time of sale based on historical experience. The Company also accrues amounts for goods expected to be returned in salable condition. As of December 31, 2019, and December 31, 2018, the Company's sales returns liability totaled \$86.5 million and \$67.3 million, respectively, and was included in accrued expenses in the consolidated balance sheets.

Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic revenue recognition methodology under ASC 605, *Revenue Recognition*.

### (d) Business Combinations

Business acquisitions are accounted for under the acquisition method by assigning the purchase price to tangible and intangible assets acquired and liabilities assumed. Assets acquired and liabilities assumed are recorded at their fair values and the excess of the purchase price over the amounts assigned is recorded as goodwill. Purchased intangible assets with finite lives are amortized over their estimated useful lives. Goodwill and intangible assets with indefinite lives are not amortized but are tested at least annually for impairment or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Fair value determinations require judgment and may involve the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives, and market multiples, among other items. The purchase price allocation is subject to adjustment until the Company has completed its analysis within the measurement period. In the second quarter of 2019, the Company purchased a 60% interest in Manhattan SKMX, de R.L. de C.V. ("Skechers Mexico"), for a total cash consideration of \$100.7 million, net of cash acquired. Skechers Mexico is a joint venture that operates and generates sales in Mexico. As a result of this purchase, Skechers Mexico became a majority-owned subsidiary and the results are consolidated in the consolidated financial statements. The Company is in the final process of completing the purchase price allocation, which will be completed by April 1, 2020. However, the finalization may result in changes in the assets acquired and tax-related items. Pro forma results of operations have not been presented because the effects of the acquisition, individually and in the aggregate, were not material to the Company's consolidated financial statements.

### (e) Business Segment Information

The Company's operations and segments are organized along its distribution channels and consist of the following: domestic wholesale, international wholesale, and direct-to-consumer sales. Information regarding these segments is summarized in Note 20 – Segment and Geographic Reporting.

### (f) Noncontrolling Interests

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Company's products throughout Mexico, Asia and the Middle East or to construct the Company's domestic distribution facility. These joint ventures are variable interest entities ("VIE")'s under Accounting Standards Codification ("ASC") 810-10-15-14. The Company's determination of the primary beneficiary of a VIE considers all relationships between the Company and the VIE, including management agreements, governance documents and other contractual arrangements. The Company has determined that it is the primary beneficiary for these VIE's because the Company has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity, or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Accordingly, the Company includes the assets and liabilities and results of operations of these entities in its consolidated financial statements, even though the Company may not hold a majority equity interest. There have been no changes during 2019 in the accounting treatment or characterization of any previously identified VIE. The Company continues to reassess these relationships quarterly. The assets of these joint ventures are restricted in that they are not available for general business use outside the context of such joint ventures. The holders of the liabilities of each joint venture have no recourse to the Company. The Company does not have a variable interest in any unconsolidated VIEs.

#### (g) Fair Value of Financial Instruments

The accounting standard for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. This accounting standard established a fair value hierarchy, which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. The Company's Level 1 non-derivative investments primarily include money market funds and U.S. Treasury securities.
- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 non-derivative investments primarily include corporate notes and bonds, asset-backed securities, U.S. Agency securities, and actively traded mutual funds. The Company has one Level 2 derivative which is an interest rate swap related to the refinancing of its domestic distribution center (see below).
- Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability. The Company currently does not have any Level 3 assets or liabilities.

The carrying amount of the Company's financial instruments, which principally include cash and cash equivalents, short-term investments, accounts receivable, long-term investments, accounts payable and accrued expenses approximates fair value because of the relatively short maturity of such instruments. The carrying amount of the Company's short-term and long-term borrowings, which are considered Level 2 liabilities, approximates fair value based upon current rates and terms available to the Company for similar debt.

As of August 12, 2015, the Company entered into an interest rate swap agreement concurrent with refinancing its domestic distribution center construction loan (see Note 8 - Derivative Instruments). The fair value of the interest rate swap was determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipt was based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with U.S. GAAP, credit valuation adjustments were incorporated to appropriately reflect both the Company's nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. The majority of the inputs used to value the interest rate swap were within Level 2 of the fair value hierarchy. As of December 31, 2019, the interest rate swap was a Level 2 derivative and was classified as other long-term liabilities in the Company's consolidated balance sheets.

#### (h) Cash and Cash Equivalents

Cash and cash equivalents include deposits with initial terms 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.

#### (i) Investments

In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments consist of U.S. Treasury Bonds, U.S. Agency securities, corporate notes and bonds, asset-backed securities and actively traded mutual funds.

#### (j) Allowance for Bad Debts, Returns, Sales Allowances and Customer Chargebacks

The Company provides a reserve, charged against revenue and its receivables, for estimated losses that may result from its customers' inability to pay. To minimize the likelihood of uncollectability, customers' credit-worthiness is reviewed and adjusted periodically in accordance with external credit reporting services, financial statements issued by the customer and the Company's experience with the account. When a customer's account becomes significantly past due, the Company generally places a hold on the account and discontinues further shipments to that customer, minimizing further risk of loss. The Company determines the amount of the reserve by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' countries or industries, historical losses and its customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged against this reserve. Allowance for returns, sales allowances and customer chargebacks are recorded against revenue. Allowances for bad debts are recorded to general and administrative expenses. Retail and direct-to-consumer receivables represent amounts due from credit card companies and are generally collected within a few days of the purchase. As such, the Company has determined that no allowance for doubtful accounts is necessary.

The Company also reserves for potential disputed amounts or chargebacks from its customers. The Company's chargeback reserve is based on a collectability percentage calculated using factors such as historical trends, current economic conditions, and nature of the chargeback receivables. The Company also reserves for potential sales returns and allowances based on historical trends.

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, the Company provides a reserve based upon its historical loss rate as a percentage of sales.

(k) Inventories

Inventories, principally finished goods, are stated at the lower of cost (based on the first-in, first-out method) or market (net realizable value). Cost includes shipping and handling fees and costs, which are subsequently expensed to cost of sales. 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 on inventory on hand, historical sales activity, industry trends, the retail environment, and the expected net realizable value. The net realizable value is determined using estimated sales prices of similar inventory through off-price or discount store channels.

(l) Property, Plant and Equipment

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

Buildings	20 years
Building improvements	10 years
Furniture, fixtures and equipment	5 to 20 years
Leasehold improvements	Useful life or remaining lease term, whichever is shorter

Property, plant and equipment subject to depreciation and amortization is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The Company reviews both quantitative and qualitative factors to assess whether a triggering event occurred. The Company reviews all stores for impairment annually or more frequently if events or changes in circumstances require it. The Company prepares a summary of store cash flows from its retail stores to assess potential impairment of the fixed assets, leasehold improvements, and operating lease right-of-use assets. Stores with negative cash flows which have been open in excess of 24 months are then reviewed in detail to determine whether impairment exists. Recoverability of assets or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. The Company did not record impairment charges during the years ended December 31, 2019, 2018 or 2017.

(m) Goodwill

Goodwill is assigned to reporting units. Goodwill is not amortized, but the Company assesses goodwill for impairment annually or more frequently if events or changes in circumstances require it. First, the Company determines if, based on qualitative factors, it is more likely than not that an impairment exists. Factors considered include historical financial performance, macroeconomic and industry conditions and the legal and regulatory environment. If the qualitative assessment indicates that it is more likely than not that an impairment exists, then a quantitative assessment is performed. The quantitative assessment involves calculating an estimated fair value of each reporting unit based on projected future cash flows and comparing the estimated fair values of the reporting units to their carrying amounts, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying value, including goodwill, no impairment is recognized. However, if the carrying amount of a reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to the excess, limited to the total goodwill balance of the reporting unit. The quantitative assessment requires an analysis of several best estimates and assumptions, including future sales and operating results, and other factors that could affect fair value or otherwise indicate potential impairment. The Company also considers the reporting units' projected ability to generate income from operations and positive cash flow in future periods, as well as perceived changes in consumer demand and acceptance of products, or factors impacting the industry generally. The fair value assessment could change materially if different estimates and assumptions were used.

(n) Income Taxes

The Company accounts for income taxes in accordance with ASC 740-10, which requires that the Company recognize deferred tax liabilities for taxable temporary differences and deferred tax assets for deductible temporary differences and operating loss carry-forwards using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit or expense is recognized as a result of changes in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all of any deferred tax assets will not be realized.

(o) Foreign Currency Translation

In accordance with ASC 830-30, certain international operations use the respective local currencies as their functional currency, while other international operations use the U.S. Dollar as their functional currency. The Company considers the U.S. dollar as its reporting currency. The Company operates internationally through several foreign subsidiaries. Skechers S.a.r.l. located in Switzerland, operates with a functional currency of the U.S. dollar. Translation adjustments for subsidiaries where the functional currency is its local currency are included in other comprehensive income. Foreign currency transaction gains (losses) resulting from exchange rate fluctuation on transactions denominated in a currency other than the functional currency are reported in earnings. 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. Translations of intercompany loans of a long-term investment nature are included as a component of translation adjustment in other comprehensive income.

(p) Comprehensive Income

Comprehensive income is presented in the consolidated statements of comprehensive income. Comprehensive income consists of net earnings, foreign currency translation adjustments, and income attributable to non-controlling interests.

(q) 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, 2019, 2018 and 2017 was approximately \$297.1 million, \$278.4 million and \$260.4 million, respectively. Prepaid advertising costs were \$6.4 million and \$4.4 million at December 31, 2019 and 2018, respectively. Prepaid amounts outstanding at December 31, 2019 and 2018 represent the unamortized portion of endorsement contracts, advertising in trade publications and media productions created, but not run, as of December 31, 2019 and 2018, respectively.

(r) Product Design and Development Costs

The Company charges all product design and development costs to general and administrative expenses, when incurred. Product design and development costs aggregated approximately \$16.8 million, \$18.5 million, and \$18.8 million during the years ended December 31, 2019, 2018 and 2017, respectively.

(s) Warehouse and Distribution Costs

The Company's distribution network-related costs are included in general and administrative expenses and are not allocated to specific segments. The expenses related to its distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of its products totaled \$276.4 million, \$249.6 million and \$219.6 million for 2019, 2018 and 2017, respectively.

(t) Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02 "*Leases (Topic 842)*," ("ASU 2016-02"). ASU 2016-02 is intended to increase transparency and comparability among organizations relating to leases. Lessees are required to recognize a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. The FASB retained a dual model for lease classification, requiring leases to be classified as finance or operating leases to determine recognition in the earnings statement and cash flows; however, substantially all leases are required to be recognized on the balance sheet. ASU 2016-02 requires quantitative and qualitative disclosures regarding key information about leasing arrangements. This standard allows entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The standard also provides for certain practical expedients. The Company adopted this ASU on January 1, 2019, using the optional transition method and also elected to use the 'package of practical expedients', which allows the Company not to continue to reassess previous conclusions about lease

identification, lease classification and initial direct costs. The Company did not recognize any adjustment to opening balance of retained earnings.

In June 2016, the FASB issued ASU No. 2016-13, *“Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument,”* (“ASU 2016-13”). The new standard amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which may result in earlier recognition of losses. Public business entities should apply the guidance in ASU 2016-13 for annual periods beginning after December 15, 2019, including interim periods within those annual periods. The Company is currently evaluating the impact of ASU 2016-13; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *“Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,”* (“ASU 2018-02”). The standard permits a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Effective January 1, 2019, the Company adopted ASU 2018-02 and the adoption of ASU 2018-02 did not have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13 *“Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement,”* (“ASU No. 2018-13”), which modifies the disclosure requirements on fair value measurements, including the consideration of costs and benefits. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company is currently evaluating the impact of ASU 2018-13; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 *“Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract,”* (“ASU 2018-15”). ASU 2018-15 requires that issuers follow the internal-use software guidance in Accounting Standards Codification (ASC) 350-40 to determine which costs to capitalize as assets or expense as incurred. The ASC 350-40 guidance requires that certain costs incurred during the application development stage be capitalized and other costs incurred during the preliminary project and post-implementation stages be expensed as they are incurred. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2018-15; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements.

In December 2019, the FASB issued ASU no. 2019-12, *“Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,”* (“ASU No. 2019-12”). The amendment removes certain exceptions to the general income tax accounting methodology including an exception for the recognition of a deferred tax liability when a foreign subsidiary becomes an equity method investment and an exception for interim periods showing operating losses in excess of anticipated operating losses for the year. The amendment also reduces the complexity surrounding franchise tax recognition; the step up in the tax basis of goodwill in conjunction with business combinations; and the accounting for the effect of changes in tax laws enacted during interim periods. The amendments in this update are effective for the Company for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of ASU 2019-12; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements.





### (3) LEASES

The Company determines if an arrangement is a lease at inception, and, if a lease, what type of lease it is. The Company regularly enters into non-cancellable operating leases for automobiles, retail stores, and real estate leases for offices, showrooms and distribution facilities. Most leases have fixed rental payments. Leases for retail stores typically have initial terms ranging from 5 to 10 years. Other real estate or facility leases may have initial lease terms of up to 20 years. The Company considers renewal options in the lease term if they are reasonably certain to be exercised. These leases are included within operating lease ROU assets and liabilities on the Company's consolidated balance sheet as of December 31, 2019. The predominant asset for most real estate leases is the right to occupy the space which the Company has determined is the single lease component. Many of the Company's real estate leases include options to extend or to terminate the lease that are not reasonably certain at the time of determining the expected lease term. In addition, the Company's real estate leases may also require additional payments for real estate taxes and other occupancy-related costs. Other occupancy-related costs which are considered as non-lease components. Percentage rent expense, which is specified in the lease agreement, is owed when sales at individual retail store locations exceed a base amount. Percentage rent expense is recognized in the consolidated financial statements when incurred. Rent expense for leases having rent holidays, landlord incentives or scheduled rent increases is recorded on a straight-line basis over the earlier of the beginning of the lease term or when the Company takes possession or control of the leased premises. The amount of the excess straight-line rent expense over scheduled payments is recorded as an operating lease liability. Operating lease ROU assets and operating lease liabilities are recognized based upon the present value of the future lease payments over the lease term at the commencement date. Most of the Company's leases do not provide an implicit borrowing rate. Therefore, the Company uses an estimated incremental borrowing rate based upon a combination of market-based factors, such as market quoted forward yield curves and Company specific factors, such as lease size and duration. The incremental borrowing rate is then used at the commencement date of the lease to determine the present value of future lease payments. The operating lease ROU asset also includes lease payments made and lease incentives and initial direct costs incurred. Lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. Rent expense for the years ended December 31, 2018 and 2017 approximated \$257.6 million, and \$223.7 million, respectively. As of December 31, 2019, current liabilities related to operating leases were \$191.1 million.

The future minimum obligations under operating leases in effect as of December 31, 2019 having a noncancelable term in excess of one year as determined prior to the adoption of ASU 842 are as follows (in thousands):

	<u>December 31, 2019</u>
2020.....	\$ 236,604
2021.....	211,466
2022.....	182,833
2023.....	164,467
2024.....	152,823
Thereafter.....	<u>439,766</u>
Total lease payments.....	1,387,959
Less: Imputed interest .....	<u>(230,819)</u>
	<u>\$ 1,157,140</u>

Operating lease cost and other information (in thousands):

	<u>Year ended</u> <u>December 31, 2019</u>
Fixed lease cost .....	\$ 246,296
Variable lease cost.....	13,104
Operating cash flows used for leases .....	264,424
Noncash right-of-use assets recorded for lease liabilities:	
For January 1 adoption of <i>Topic 842</i> .....	1,035,062
In exchange for new lease liabilities during the period .....	122,078
Weighted-average remaining lease term .....	4.66 years
Weighted-average discount rate .....	4.20%

As of December 31, 2019, the Company has additional operating leases, primarily for new retail stores, that have not yet commenced which will generate additional right-of-use assets of \$30.8 million. These operating leases will commence in 2020 with lease terms ranging from 1 year to 10 years.

#### (4) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2019 and 2018 is summarized as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Land .....	\$ 90,862	\$ 83,163
Buildings and improvements .....	349,066	246,893
Furniture, fixtures and equipment .....	454,837	374,706
Leasehold improvements .....	453,805	401,514
Total property, plant and equipment.....	1,348,570	1,106,276
Less accumulated depreciation and amortization .....	609,645	520,819
Property, plant and equipment, net.....	<u>\$ 738,925</u>	<u>\$ 585,457</u>

#### (5) ACCRUED EXPENSES

Accrued expenses at December 31, 2019 and 2018 are summarized as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Accrued inventory purchases .....	\$ 48,923	\$ 40,493
Accrued payroll and taxes .....	92,264	72,822
Return reserve liability .....	69,048	48,466
Accrued expenses .....	<u>\$ 210,235</u>	<u>\$ 161,781</u>

#### (6) LINE OF CREDIT

On November 21, 2019, the Company entered into a \$500.0 million senior unsecured revolving credit facility, which matures on November 21, 2024 (the "2019 Credit Agreement"), with Bank of America, N.A., as administrative agent and joint lead arranger, HSBC Bank USA, N.A. and JPMorgan Chase Bank, N.A., as joint lead arrangers, and other lenders. The 2019 Credit Agreement replaced the Company's then existing \$250.0 million loan and security agreement dated June 30, 2015 with Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association that was set to expire on June 30, 2020. The 2019 Credit Agreement may be increased by up to \$250.0 million under certain conditions and provides for the issuance of letters of credit up to a maximum of \$100.0 million and swingline loans up to a maximum of \$25.0 million. The Company may use the proceeds from the 2019 Credit Agreement for working capital and other lawful corporate purposes. At the Company's option, any loan (other than swingline loans) will bear interest at a rate equal to (a) LIBOR plus an applicable margin between 1.125% and 1.625% based upon the Company's Total Adjusted Net Leverage Ratio (as defined in the 2019 Credit Agreement) or (b) a base rate (defined as the highest of (i) the Federal Funds Rate plus 0.50%, (ii) the Bank of America prime rate and (iii) LIBOR plus 1.00%) plus an applicable margin between 0.125% and 0.625% based upon the Company's Total Adjusted Net Leverage Ratio. Any swingline loan will bear interest at the base rate. The Company will pay a variable commitment fee of between 0.125% and 0.25% of the actual daily unused amount of each lender's commitment, and will also pay a variable letter of credit fee of between 1.125% and 1.625% on the maximum amount available to be drawn under each issued and outstanding letter of credit, both of which are based upon the Company's Total Adjusted Net Leverage Ratio. The 2019 Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including covenants that limit the ability of the Company and its subsidiaries to, among other things, incur debt, grant liens, make certain acquisitions, dispose of assets, effect a change of control of the Company, make certain restricted payments including certain dividends and stock redemptions, make certain investments or loans, enter into certain transactions with affiliates and certain prohibited uses of proceeds. The 2019 Credit Agreement also requires that the total adjusted net leverage ratio not exceed 3.75, except in the event of an acquisition in which case the ratio may be increased at the Company's election to 4.25 for the quarter in which such acquisition occurs and for the next three quarters thereafter. The 2019 Credit Agreement provides for customary events of default including payment defaults, breaches of representations or warranties or covenants, cross defaults with certain other indebtedness to third parties, certain judgments/awards/orders, a change of control, bankruptcy and insolvency events, inability to pay debts, ERISA defaults, and invalidity or impairment of the 2019 Credit Agreement or any loan documentation related thereto, with, in certain circumstances, cure periods. Certain of the lenders party to the 2019 Credit Agreement, and their respective affiliates, have performed, and may in the future perform for the Company and the Company's subsidiaries, various commercial banking, investment banking, underwriting and other financial advisory services, for which they have received, and will receive, customary fees and expenses. The Company paid origination, arrangement and legal fees of \$1.6 million on the 2019 Credit Agreement, which are being amortized to interest expense over the five-year life of the facility. As of December 31, 2019, there was no amount outstanding under the Company's 2019 Credit Agreement. The remaining balance in short-term borrowings as of December 31, 2019 is related to the Company's international operations.

## (7) SHORT AND LONG-TERM BORROWINGS

Long-term borrowings at December 31, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Note payable to banks, due in monthly installments of \$348 (includes principal and interest), variable-rate interest at 5.24% per annum, secured by property, balloon payment of \$62,843 due August 2020 .....	\$ 63,692	\$ 65,148
Note payable to Luen Thai Enterprise, Ltd., balloon payment of \$393 due January 2021 .....	393	5,800
Note payable to TCF Equipment Finance, Inc., due in monthly installments of \$30 (includes principal and interest), fixed-rate interest at 5.24% per annum, paid in July 2019.....	—	210
Loan payable to a bank, variable-rate interest at 4.275% per annum, due September 2023.....	48,791	18,626
Loan payable to a bank, variable-rate interest at 3.915% per annum, due October 2020.....	2,541	—
Subtotal .....	<u>115,417</u>	<u>89,785</u>
Less: current installments.....	<u>66,234</u>	<u>1,666</u>
Total long-term borrowings.....	<u>\$ 49,183</u>	<u>\$ 88,119</u>

The aggregate maturities of long-term borrowings at December 31, 2019 are as follows (in thousands):

2020 .....	\$ 63,692
2021 .....	3,290
2022 .....	36,848
2023 .....	11,587
2024 .....	—
	<u>\$ 115,417</u>

On September 29, 2018, through the Taicang subsidiary, the Company entered into a 700 million yuan loan agreement with China Construction Bank Corporation (the “China DC Loan Agreement”). The proceeds from the China DC Loan Agreement is being used to finance the construction of the Company’s distribution center in China. Interest will be paid quarterly. The interest rate will float and be calculated at a reference rate provided by the People’s Bank of China. The interest rate at December 31, 2019 was 4.275% and may increase or decrease over the life of the loan, and will be evaluated every 12 months. The principal of the loan will be repaid in semi-annual installments, beginning in 2021, of variable amounts as specified in the China DC Loan Agreement. The China DC Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that limit the ability of the Subsidiary to, among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Loan Agreement, and adjust the capital stock structure of the TC Subsidiary. The China DC Loan Agreement matures on September 28, 2023. The obligations of the TC Subsidiary under the China DC Loan Agreement are jointly and severally guaranteed by the Company’s Chinese joint venture. As of December 31, 2019, there was \$48.8 million outstanding under this credit facility, which is classified as long-term borrowings in the Company’s consolidated balance sheets.

On April 30, 2010, HF Logistics-SKX, LLC (the “JV”), through a wholly-owned subsidiary of the JV (“HF-T1”), entered into a construction loan agreement with Bank of America, N.A. as administrative agent and as a lender, and Raymond James Bank, FSB, as a lender (collectively, the “Construction Loan Agreement”), pursuant to which the JV obtained a loan of up to \$55.0 million used for construction of the project on certain property (the “Original Loan”). On November 16, 2012, HF-T1 executed a modification to the Construction Loan Agreement (the “Modification”), which added OneWest Bank, FSB as a lender, increased the borrowings under the Original Loan to \$80.0 million and extended the maturity date of the Original Loan to October 30, 2015. On August 11, 2015, the JV, through HF-T1, entered into an amended and restated loan agreement with Bank of America, N.A., as administrative agent and as a lender, and CIT Bank, N.A. (formerly known as OneWest Bank, FSB) and Raymond James Bank, N.A., as lenders (collectively, the “Amended Loan Agreement”), which amends and restates in its entirety the Construction Loan Agreement and the Modification.

As of the date of the Amended Loan Agreement, the outstanding principal balance of the Original Loan was \$77.3 million. In connection with this refinancing of the Original Loan, the JV, the Company and HF Logistics (“HF”) agreed that the Company would make an additional capital contribution of \$38.7 million to the JV, through HF-T1, to make a payment on the Original Loan based on

the Company's 50% equity interest in the JV. The payment equaled the Company's 50% share of the outstanding principal balance of the Original Loan. Under the Amended Loan Agreement, the parties agreed that the lenders would loan \$70.0 million to HF-T1 (the "New Loan"). The New Loan is being used by the JV, through HF-T1, to (i) refinance all amounts owed on the Original Loan after taking into account the payment described above, (ii) pay \$0.9 million in accrued interest, loan fees and other closing costs associated with the New Loan and (iii) make a distribution of \$31.3 million less the amounts described in clause (ii) to HF. Pursuant to the Amended Loan Agreement, the interest rate on the New Loan is the LIBOR Daily Floating Rate (as defined in the Amended Loan Agreement) plus a margin of 2%. The maturity date of the New Loan is August 12, 2020, which HF-T1 has one option to extend by an additional 24 months, or until August 12, 2022, upon payment of a fee and satisfaction of certain customary conditions. On August 11, 2015, HF-T1 and Bank of America, N.A. entered into an ISDA master agreement (together with the schedule related thereto, the "Swap Agreement") to govern derivative and/or hedging transactions that HF-T1 concurrently entered into with Bank of America, N.A. Pursuant to the Swap Agreement, on August 14, 2015, HF-T1 entered into a confirmation of swap transactions (the "Interest Rate Swap") with Bank of America, N.A. The Interest Rate Swap has an effective date of August 12, 2015 and a maturity date of August 12, 2022, subject to early termination at the option of HF-T1, commencing on August 1, 2020. The Interest Rate Swap fixes the effective interest rate on the New Loan at 4.08% per annum. Pursuant to the terms of the JV, HF Logistics is responsible for the related interest expense on the New Loan, and any amounts related to the Swap Agreement. The full amount of interest expense paid related to the New Loan has been included in non-controlling interests in the consolidated balance sheets. The Amended Loan Agreement and the Swap Agreement are subject to customary covenants and events of default. Bank of America, N.A. also acts as a lender and syndication agent under the 2015 Credit Agreement dated June 30, 2015. As of December 31, 2019, there was \$63.7 million outstanding under the Amended Loan Agreement, which is included in current installments of long-term borrowings.

The Company's short-term and long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. The Company is in compliance with its non-financial covenants, including any cross default provisions, and financial covenants of its short-term and long-term borrowings as of December 31, 2019.

## **(8) DERIVATIVE INSTRUMENTS**

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, the Company used an interest rate swap as part of its interest rate risk management strategy. The Company's interest rate swap involves the receipt of variable amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. On August 12, 2015, in connection with refinancing its domestic distribution center loan, described in Note 7 above, the Company entered into a variable-to-fixed interest rate swap agreement with Bank of America, N.A., to hedge the cash flows on the Company's \$70.0 million variable rate debt. As of December 31, 2019, the swap agreement has an aggregate notional amount of \$63.7 million and a maturity date of August 12, 2022, subject to early termination commencing on August 1, 2020 at the option of HF Logistics-SKX T1, LLC ("HF-T1"), a wholly-owned subsidiary of the Company's joint venture HF Logistics-SKX, LLC (the "JV"). Under the terms of the swap agreement, the Company will pay a weighted-average fixed rate of 2.08% on the \$63.7 million notional amount and receive payments from the counterparty based on the 30-day LIBOR rate. The rate swap agreement utilized by the Company effectively modifies its exposure to interest rate risk by converting the Company's floating-rate debt to a fixed-rate of 4.08% for the life of the loan thus reducing the impact of interest-rate changes on future interest expense. Pursuant to the terms of the JV, HF Logistics is responsible for any amounts related to the Swap Agreement.

By utilizing an interest rate swap, the Company is exposed to credit-related losses in the event that the counterparty fails to perform under the terms of the derivative contract. To mitigate this risk, the Company enters into derivative contracts with major financial institutions based upon credit ratings and other factors. The Company continually assesses the creditworthiness of its counterparties. As of December 31, 2019, all counterparties to the interest rate swap had performed in accordance with their contractual obligations.

## **(9) OTHER LONG-TERM LIABILITIES**

Other long-term liabilities at December 31, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Other long term liabilities .....	\$ 30,675	\$ 21,458
Income taxes payable .....	72,414	78,730
	<u>\$ 103,089</u>	<u>\$ 100,188</u>



## **(10) COMMITMENTS AND CONTINGENCIES**

### **(a) Product and Other Financing**

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 0.0% and 0.5% for 30- to 60-day financing. The amounts outstanding under these arrangements at December 31, 2019 and 2018 were \$214.7 million and \$180.5 million, respectively, which are included in accounts payable in the accompanying consolidated balance sheets. Interest expense incurred by the Company under these arrangements amounted to \$7.9 million in 2019, \$3.3 million in 2018, and \$4.8 million in 2017. The Company has open purchase commitments with its foreign manufacturers at December 31, 2019 of \$1,071.9 million, which are not included in the accompanying 2019 consolidated balance sheets.

### **(b) Litigation**

The Company recognizes legal expense in connection with loss contingencies as incurred.

In accordance with U.S. GAAP, the Company records a liability in its consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings are inherently difficult to predict, particularly when the matters are in the procedural stages or with unspecified or indeterminate claims for damages, potential penalties, or fines. Accordingly, the Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the consolidated financial statements as of December 31, 2019, nor is it possible to estimate what litigation-related costs will be in the future; however, the Company believes that the likelihood that claims related to litigation would result in a material loss to the Company, either individually or in the aggregate, is remote.

## **(11) STOCKHOLDERS' EQUITY**

The authorized capital stock of the Company consists of 500 million shares of Class A Common Stock, par value \$0.001 per share ("Class A Common Stock"), 75 million shares of Class B Common Stock, par value \$0.001 per share ("Class B Common Stock"), and 10 million shares of preferred stock, par value \$0.001 per share.

During 2019 and 2018, certain Class B stockholders converted 1,575,509 and 561,876 shares, respectively, of Class B Common Stock to Class A Common Stock. During 2017, no Class B Common Stock was converted to Class A Common Stock. (see Note 14 - Earnings Per Share).

## (12) NONCONTROLLING INTERESTS

The following VIEs are consolidated into the Company's consolidated financial statements and the carrying amounts and classification of assets and liabilities were as follows (in thousands):

<b>HF Logistics <sup>(1)</sup></b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Current assets.....	\$ 5,297	\$ 2,121
Non-current assets .....	104,527	98,148
Total assets.....	<u>\$ 109,824</u>	<u>\$ 100,269</u>
Current liabilities .....	\$ 64,600	\$ 2,738
Non-current liabilities.....	1,009	64,702
Total liabilities .....	<u>\$ 65,609</u>	<u>\$ 67,440</u>
<b>Product distribution joint ventures</b>	<b>December 31, 2019 <sup>(2)</sup></b>	<b>December 31, 2018 <sup>(3)</sup></b>
Current assets.....	\$ 747,668	\$ 540,768
Non-current assets .....	325,283	128,250
Total assets.....	<u>\$ 1,072,951</u>	<u>\$ 669,018</u>
Current liabilities .....	\$ 430,282	\$ 294,640
Non-current liabilities.....	135,903	26,444
Total liabilities .....	<u>\$ 566,185</u>	<u>\$ 321,084</u>

<sup>(1)</sup> Includes HF Logistics-SKX, LLC and HF Logistics-SKX, T2, LLC.

<sup>(2)</sup> Distribution joint ventures include Skechers Footwear Ltd. (Israel), Skechers China Limited, Skechers Korea Limited, Skechers Southeast Asia Limited, Skechers (Thailand) Limited, and Manhattan SKMX, S. de R.L. de C.V. (Mexico).

<sup>(3)</sup> Distribution joint ventures include Skechers Footwear Ltd. (Israel), Skechers China Limited, Skechers Korea Limited, Skechers Southeast Asia Limited, Skechers (Thailand) Limited, Skechers Retail India Private Limited, and Skechers South Asia Private Limited.

The following is a summary of net earnings attributable to, distributions to and contributions from non-controlling interests (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Net earnings attributable to non-controlling interests .....	\$ 80,692	\$ 70,232	\$ 55,914
Distributions to:			
HF Logistics-SKX, LLC .....	3,784	4,374	3,787
Skechers China Limited .....	32,245	19,915	20,620
Skechers Southeast Asia Limited .....	2,028	2,025	1,347
Skechers Hong Kong Limited .....	618	618	199
India distribution joint ventures .....	—	68	—
Contributions from:			
Skechers Korea Co., Ltd.....	6,594	—	—
Skechers Footwear Ltd. (Israel) .....	—	—	46
HF Logistics-SKX, LLC .....	7,565	—	—
Manhattan SKMX, S. de R.L. de C.V.....	22,776	—	—

### (13) SHARE REPURCHASE PROGRAM

On February 6, 2018, the Company's Board of Directors authorized a share repurchase program (the "Share Repurchase Program"), pursuant to which the Company may, from time to time, purchase shares of its Class A Common Stock, for an aggregate repurchase price not to exceed \$150.0 million. The Share Repurchase Program expires on February 6, 2021. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act, subject to market conditions, applicable legal requirements and other relevant factors. The Share Repurchase Program does not obligate the Company to acquire any particular amount of shares of Class A Common Stock and the program may be suspended or discontinued at any time.

The following table provides a summary of the Company's Class A Common Stock repurchase activities during the years ended December 31, 2019 and 2018, respectively:

	<u>Year Ended</u> <u>December 31, 2019</u>	<u>Year Ended</u> <u>December 31, 2018</u>
Shares repurchased .....	968,724	3,656,277
Average cost per share .....	\$ 30.99	\$ 27.34
Total cost of shares repurchased (in thousands): .....	\$ 30,019	\$ 99,977

### (14) EARNINGS PER SHARE

Basic earnings per share represents net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share, in addition to the weighted average determined for basic earnings per share, includes potential dilutive common shares using the treasury stock method.

The Company has two classes of issued and outstanding common stock: Class A Common Stock and Class B Common Stock. Holders of Class A Common Stock and holders of Class B Common Stock have substantially identical rights, including rights with respect to any declared dividends or distributions of cash or property, and the right to receive proceeds on liquidation or dissolution of the Company after payment of the Company's indebtedness. The two classes have different voting rights, with holders of Class A Common Stock entitled to one vote per share while holders of Class B Common Stock are entitled to ten votes per share on all matters submitted to a vote of stockholders. The Company uses the two-class method for calculating net earnings per share. Basic and diluted net earnings per share of Class A Common Stock and Class B Common Stock are identical. 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 transfer to any person or entity who is not a permitted transferee.

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

<u>Basic earnings per share</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net earnings attributable to Skechers U.S.A., Inc. ....	\$ 346,560	\$ 301,041	\$ 179,190
Weighted average common shares outstanding .....	153,392	155,815	155,651
Basic earnings per share attributable to Skechers U.S.A., Inc. ....	\$ 2.26	\$ 1.93	\$ 1.15
<u>Diluted earnings per share</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net earnings attributable to Skechers U.S.A., Inc. ....	\$ 346,560	\$ 301,041	\$ 179,190
Weighted average common shares outstanding .....	153,392	155,815	155,651
Dilutive effect of nonvested shares .....	759	635	872
Weighted average common shares outstanding .....	<u>154,151</u>	<u>156,450</u>	<u>156,523</u>
Diluted earnings per share attributable to Skechers U.S.A., Inc. ....	<u>\$ 2.25</u>	<u>\$ 1.92</u>	<u>\$ 1.14</u>

There were 10,838, 352,169, and 116,762 shares excluded from the computation of diluted earnings per share for the year ended December 31, 2019, 2018, and 2017, respectively, because they are anti-dilutive.

## (15) STOCK COMPENSATION

### (a) Incentive Award Plan

On April 16, 2007, the Company's Board of Directors adopted the 2007 Incentive Award Plan (the "2007 Plan"), which became effective upon approval by the Company's stockholders on May 24, 2007 and expired pursuant to its terms on May 24, 2017.

On April 17, 2017, the Company's Board of Directors adopted the 2017 Incentive Award Plan (the "2017 Plan"), which became effective upon approval by the Company's stockholders on May 23, 2017. The 2017 Plan replaced and superseded in its entirety the 2007 Plan. A total of 10,000,000 shares of Class A Common Stock were reserved for issuance under the 2017 Plan, which provides for grants of ISOs, non-qualified stock options, restricted stock and various other types of equity awards as described in the plan to the employees, consultants and directors of the Company and its subsidiaries. The 2017 Plan is administered by the Company's Board of Directors with respect to awards to non-employee directors and by the Company's Compensation Committee with respect to other eligible participants.

A summary of the status and changes of nonvested shares related to the 2007 Plan and the 2017 Plan, as of and for the year ended December 31, 2019 is presented below:

	<u>SHARES</u>	<u>WEIGHTED- AVERAGE GRANT- DATE FAIR VALUE</u>
Nonvested at January 1, 2017.....	3,043,164	\$ 24.57
Granted.....	495,600	24.69
Vested/Released.....	(1,157,207)	20.73
Cancelled.....	(78,000)	32.62
Nonvested at December 31, 2017.....	<u>2,303,557</u>	26.25
Granted.....	1,811,000	38.05
Vested/Released.....	(1,018,283)	21.91
Cancelled.....	(127,333)	29.71
Nonvested at December 31, 2018.....	<u>2,968,941</u>	34.79
Granted.....	1,603,000	28.45
Vested/Released.....	(1,116,868)	32.46
Cancelled.....	(28,250)	39.40
Nonvested at December 31, 2019.....	<u><u>3,426,823</u></u>	32.55

As of December 31, 2019, a total of 6,515,750 shares remain available for grant as equity awards under the 2017 Plan.

The Company recognized in the consolidated statements of earnings compensation expense of \$41.1 million, \$30.5 million and \$28.9 million for grants under its stock compensation plans for the years ended December 31, 2019, 2018, and 2017, respectively. Related excess income tax benefits of \$0.3 million, \$1.6 million, and \$2.6 million was recorded in the statement of earnings for the years ended December 31, 2019, 2018 and 2017, respectively. Nonvested shares generally vest over a graded vesting schedule from one to four years from the date of grant. There was \$81.3 million of unrecognized compensation cost related to nonvested common shares as of December 31, 2019, which is expected to be recognized over a weighted average period of 2.1 years. The total fair value of shares vested during the years ended December 31, 2019 and 2018 was \$36.3 million and \$22.3 million, respectively.

### (b) Stock Purchase Plan

On April 17, 2017, the Company's Board of Directors adopted the 2018 Employee Stock Purchase Plan (the "2018 ESPP"), which the Company's stockholders approved on May 23, 2017. The 2018 ESPP replaced the Company's previous employee stock purchase plan, the Skechers U.S.A., Inc. 2008 Employee Stock Purchase Plan (the "2008 ESPP"), which expired pursuant to its terms on January 1, 2018. The 2018 Employee Stock Purchase Plan provides eligible employees of the Company and its subsidiaries with the opportunity to purchase shares of the Company's Class A Common Stock at a purchase price equal to 85% of the Class A Common Stock's fair market value on the first trading day or last trading day of each purchase period, whichever is lower. The 2018 ESPP generally provides for two six-month purchase periods every twelve months: June 1 through November 30 and December 1 through May 31, except that the initial purchase period under the 2018 ESPP had a duration of five months, commencing on January 1, 2018 and ending on May 31, 2018. Eligible employees participating in the 2018 ESPP for a purchase period will be able to invest up to 15% of their compensation through payroll deductions during each purchase period. A total of 5,000,000 shares of Class A Common Stock are available for sale under the 2018 ESPP.

During 2019, 2018 and 2017, 260,630 shares, 221,889 shares and 240,000 shares were issued under the 2018 ESPP and 2008 ESPP for which the Company received approximately \$6.2 million, \$5.3 million and \$5.5 million, respectively. The purchase price discount and the look-back feature cause the 2018 ESPP to be compensatory and the Company recognizes compensation expense, which is computed using Black-Scholes options pricing model.

## (16) INCOME TAXES

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Federal:			
Current .....	\$ 22,899	\$ 11,379	\$ 110,448
Deferred .....	<u>(3,583)</u>	<u>(3,971)</u>	<u>3,768</u>
Total federal .....	<u>19,316</u>	<u>7,408</u>	<u>114,216</u>
State:			
Current .....	6,384	5,408	2,747
Deferred .....	<u>(813)</u>	<u>(1,316)</u>	<u>(3,356)</u>
Total state .....	<u>5,571</u>	<u>4,092</u>	<u>(609)</u>
Foreign:			
Current .....	66,656	53,071	40,147
Deferred .....	<u>(2,790)</u>	<u>(3,960)</u>	<u>(4,598)</u>
Total foreign .....	<u>63,866</u>	<u>49,111</u>	<u>35,549</u>
Total income taxes (benefit) .....	<u>\$ 88,753</u>	<u>\$ 60,611</u>	<u>\$ 149,156</u>

Due to the enactment of Tax Cuts and Jobs Act (the “Tax Act”) in December 2017, the Company is subject to a tax on global intangible low-taxed income (“GILTI”). GILTI is a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. Companies subject to GILTI have the option to account for the GILTI tax as a period cost if and when incurred, or to recognize deferred taxes for temporary differences including outside basis differences expected to reverse as GILTI. The Company has elected to account for GILTI as a period cost, and therefore has included GILTI expense in its effective tax rate calculation for the period.

The SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification 740 (“ASC 740”). In connection with its initial analysis of the impact of the Tax Act, the Company recorded a provisional one-time net tax expense of \$99.9 million for the year ended December 31, 2017. In 2018, the Company obtained additional information which reduced the Company’s provisional accounting for certain tax effects of the Tax Act by \$10.9 million, from \$99.9 million as reported at December 31, 2017, to \$89.0 million.

The Company’s provision for income tax expense (benefit) and effective income tax rate are significantly impacted by the mix of the Company’s domestic and foreign earnings (loss) before income taxes. In the non-U.S. jurisdictions in which the Company has operations, the applicable statutory rates are generally lower than in the U.S., ranging from 0.0% to 34.6%. The Company’s provision for income tax expense (benefit) was calculated using the applicable rate for each jurisdiction applied to the Company’s pre-tax earnings (loss) with application of transfer pricing considerations in each jurisdiction, while the Company’s effective tax rate is calculated by dividing income tax expense (benefit) by earnings before income taxes.



The Company's earnings (loss) before income taxes and income tax expense (benefit) for 2019, 2018 and 2017 are as follows (in thousands):

	Years Ended December 31,					
	2019		2018		2017	
	Earnings (loss) before income taxes	Income tax expense	Earnings (loss) before income taxes	Income tax expense (benefit)	Earnings (loss) before income taxes	Income tax expense
<b>Income tax jurisdiction</b>						
United States <sup>(1)</sup> .....	\$ 4,999	\$ 24,887	\$ 16,597	\$ 11,500	\$ 25,628	\$ 113,607
Peoples Republic of China ("China") .....	121,702	30,320	89,429	19,595	95,668	12,971
Hong Kong .....	50,131	4,303	48,352	8,106	17,778	5,030
Jersey <sup>(2)</sup> .....	245,561	—	213,327	—	198,048	—
Non-benefited loss operations <sup>(3)</sup> .....	(7,685)	1,184	(11,422)	(3,387)	(17,350)	3,306
Other jurisdictions <sup>(4)</sup> .....	101,297	28,059	75,601	24,797	64,488	14,242
Earnings before income taxes .....	<u>\$ 516,005</u>	<u>\$ 88,753</u>	<u>\$ 431,884</u>	<u>\$ 60,611</u>	<u>\$ 384,260</u>	<u>\$ 149,156</u>
Effective tax rate <sup>(5)</sup> .....		17.2%		14.0%		38.8%

<sup>(1)</sup> United States income tax expense for 2017 includes a provisional one-time \$99.9 million tax expense related to the enactment of the United States Tax Cuts & Jobs Act on December 22, 2017.

<sup>(2)</sup> Jersey does not assess income tax on corporate net earnings.

<sup>(3)</sup> Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being reported because of the provision of offsetting valuation allowances: Barbados, Brazil, China, India, Japan, Macau, Panama, Romania, Thailand, and South Korea.

<sup>(4)</sup> Consists of entities in the following tax jurisdictions, each of which comprises not more than 5% of consolidated earnings (loss) before taxes in the period being reported: Albania, Austria, Belgium, Bosnia & Herzegovina, Canada, Chile, Colombia, Costa Rica, France, Germany, Hungary, India, Israel, Italy, Kosovo, Macau, Macedonia, Malaysia, Mexico, Montenegro, Netherlands, Panama, Peru, Poland, Portugal, Serbia, Singapore, Spain, Switzerland, Vietnam, and the United Kingdom.

<sup>(5)</sup> The effective tax rate is calculated by dividing income tax expense by earnings before income taxes.

For 2019, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 25%, primarily because of earnings from foreign operations in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2019, as reflected in the table above, earnings (loss) before income taxes in the U.S. were \$5.0 million, with income tax expense of \$24.9 million, which is an average rate of 498%. This rate is higher than the 25% U.S. statutory rate primarily due to the taxation of foreign earnings in the U.S. Earnings (loss) before income taxes in non-U.S. jurisdictions were \$511.0 million, with an aggregate income tax expense of \$63.9 million, which is an average rate of 12.5%. Combined, this results in consolidated earnings before income taxes for the year of \$516.0 million, and consolidated income tax expense for the year of \$88.8 million, resulting in an effective tax rate of 17.2%. For 2018, of \$511.0 million in earnings before income tax earned outside the U.S., \$245.6 million was earned in Jersey, which does not impose a tax on corporate earnings. In Jersey, earnings before income taxes increased by \$32.3 million to \$245.6 million in 2019 from \$213.3 million in 2018. This increase was primarily attributable to an increase in international sales which resulted in an increase in earnings before income taxes in Jersey from royalties and commissions under the terms of inter-subsiary agreements. In addition, there were foreign losses of \$7.6 million for which no tax benefit was recognized during the year ended December 31, 2019 because of the provision of offsetting valuation allowances. Individually, none of the other foreign jurisdictions included in "Other jurisdictions" in the table above had earnings greater than 5% of consolidated earnings (loss) before taxes in any of the years shown.

As of December 31, 2019, the Company had approximately \$824.9 million in cash and cash equivalents, of which \$566.4 million, or 68.7%, was held outside the U.S. Of the \$566.4 million held by its non-U.S. subsidiaries, approximately \$220.3 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable non-U.S. income and withholding taxes in excess of the amounts accrued in the Company's consolidated financial statements as of December 31, 2019.

The Company's cash and cash equivalents held in the U.S. and cash provided from operations are sufficient to meet the Company's liquidity needs in the U.S. for the next twelve months. However, in anticipation of the needs of the Company's share repurchase program and the need to provide payment of the Company's provisional Transition Tax liability, the Company may repatriate certain funds held outside the U.S. for which all applicable U.S. and non-U.S. tax has been fully provided as of December 31, 2019. The Company has provided for the tax impact of expected distributions from its joint venture in China as well as from its subsidiary in Chile to its intermediate parent company in Switzerland. Otherwise because of the need for cash for operating capital and continued overseas expansion, the Company does not foresee the need for any of its other foreign subsidiaries to distribute funds up to an intermediate foreign parent company in any form of taxable dividend. Under current applicable tax laws, if the Company chooses to repatriate some or all of the funds the Company has designated as indefinitely reinvested outside the U.S., the amount repatriated would not be subject to federal income tax but may be subject to applicable non-U.S. income and withholding taxes, and to certain state income taxes.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Expected income tax expense .....	\$ 108,361	\$ 90,696	\$ 134,491
State income tax, net of federal benefit.....	1,278	3,051	297
Rate differential on foreign income .....	(43,327)	(40,065)	(95,565)
Change in unrecognized tax benefits .....	2,739	820	1,449
Non-deductible compensation.....	7,126	6,269	6,592
Tax credits .....	(3,264)	(2,539)	(2,151)
Excess tax benefit on share based compensation.....	(251)	(1,557)	(2,571)
U.S. tax rate change.....	—	—	1,923
U.S. transition tax.....	—	(10,963)	98,015
U.S. tax on foreign earnings.....	9,786	9,956	—
Other.....	3,440	2,077	(1,110)
Change in valuation allowance .....	2,865	2,866	7,786
Total provision (benefit) for income taxes .....	<u>\$ 88,753</u>	<u>\$ 60,611</u>	<u>\$ 149,156</u>
Effective tax rate.....	17.2%	14.0%	38.8%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are presented below (in thousands):

	<u>2019</u>	<u>2018</u>
Deferred tax assets:		
Inventory adjustments .....	\$ 6,954	\$ 5,779
Accrued expenses.....	50,847	42,637
Allowances for bad debts and chargebacks.....	4,809	3,549
Loss carryforwards.....	28,605	24,834
Business credit carryforward.....	8,262	7,015
Share-based compensation .....	4,521	4,283
Operating lease liabilities .....	261,984	—
Valuation allowance.....	(33,044)	(30,179)
Total deferred tax assets .....	<u>332,938</u>	<u>57,918</u>
Deferred tax liabilities:		
Prepaid expenses .....	5,586	6,263
Right-of-use assets .....	261,984	—
Depreciation on property, plant and equipment .....	16,602	12,674
Total deferred tax liabilities.....	<u>284,172</u>	<u>18,937</u>
Net deferred tax assets.....	<u>\$ 48,766</u>	<u>\$ 38,981</u>

The \$2.9 million increase in the valuation allowance primarily relates to increases in deferred tax assets in certain foreign non-benefited loss jurisdictions as discussed above. The Company believes it is more likely than not that the results of future operations in the remaining jurisdictions will generate sufficient taxable income to realize its net deferred tax assets.

State tax credit and net operating loss carry-forward amounts remaining as of December 31, 2019 were \$10.5 million and \$31.0 million, respectively. State tax credit and net operating loss carry-forward amounts remaining as of December 31, 2018 were \$8.9 million and \$31.1 million, respectively. These tax credit and net operating loss carry-forward amounts do not begin to expire until 2023 and 2032, respectively. As of December 31, 2019 and 2018, no valuation allowance against the related deferred tax asset have been recorded for these credit and loss carry-forwards as it is believed the carry-forwards will be fully utilized in reducing future taxable income.

As of December 31, 2019, and 2018, the Company had combined foreign net operating loss carry-forwards available to reduce future taxable income of approximately \$154.0 million and \$121.5 million, respectively. Some of these net operating losses expire beginning in 2020; however, others can be carried forward indefinitely. As of December 31, 2019, and 2018, valuation allowances of \$25.9 million and \$21.4 million, respectively, had been recorded against the related deferred tax assets for those loss carry-forwards that are not more likely than not to be fully utilized in reducing future taxable income.

The balance of unrecognized tax benefits included in prepaid expenses in the consolidated balance sheets increased by \$2.6 million during the year. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Beginning balance .....	\$ 7,975	\$ 7,381
Additions for current year tax positions.....	1,795	1,161
Additions for prior year tax positions .....	1,638	—
Reductions for prior year tax positions .....	—	(55)
Reductions related to lapse of statute of limitations .....	(842)	(512)
Ending balance.....	<u>\$ 10,566</u>	<u>\$ 7,975</u>

If recognized, \$10.6 million of unrecognized tax benefits would be recorded as a reduction in income tax expense.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of income tax expense and totaled \$0.4 million, \$0.2 million, and \$0.5 million for the years ended December 31, 2019, 2018, and 2017, respectively. Accrued interest and penalties were \$2.1 million and \$1.8 million as of December 31, 2019 and 2018, respectively.

The amount of income taxes the Company pays is subject to ongoing audits by taxing jurisdictions around the world. The Company's estimate of the potential outcome of any uncertain tax position is subject to its assessment of relevant risks, facts, and circumstances existing at that time. The Company believes that it has adequately provided for these matters. However, the Company's future results may include favorable or unfavorable adjustments to its estimates in the period the audits are resolved, which may impact the Company's effective tax rate.

As of December 31, 2019, the Company's tax filings are generally subject to examination in the U.S. and most foreign jurisdictions for years ending on or after December 31, 2015, and in several Asian and European tax jurisdictions for years ending on or after December 31, 2009. During the year, the Company reduced the balance of 2019 and prior year unrecognized tax benefits by \$0.8 million as a result of expiring statutes. It is reasonably possible that certain domestic and foreign statutes will expire during the next twelve months which would reduce the balance of 2019 and prior year unrecognized tax benefits by \$1.6 million.

The Company is currently under examination by a number of states and certain foreign jurisdictions. During the year ended December 31, 2019, there was no reduction in the balance of 2019 and prior year unrecognized tax benefits due to settlements of examinations. It is reasonably possible that certain federal, state and foreign examinations could be settled during the next twelve months which would reduce the balance of 2019 and prior year unrecognized tax benefits by \$0.9 million.

## **(17) EMPLOYEE BENEFIT PLAN**

The Company has a 401(k) profit sharing plan covering all employees who are 21 years of age and have completed 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 six year period. The Company made a contribution of \$2.4 million and \$2.3 million to the plan for the year ended December 31, 2019 and 2018, respectively.

In May 2013, the Company established the Skechers U.S.A., Inc. Deferred Compensation Plan (the “Plan”), which allows eligible employees to defer compensation up to a maximum amount to a future date on a nonqualified basis. The Plan provides for the Company to make discretionary contributions to participating employees, which will be determined by the Company’s Compensation Committee. The Company made contributions of \$0.1 million to the Plan for each years ended December 31, 2019 and 2018, respectively. The value of the deferred compensation is recognized based on the fair value of the participants’ accounts as determined monthly. The Company has established a rabbi trust (the “Trust”) as a reserve for the benefits payable under the Plan. The assets of the Trust and deferred liabilities are presented in the Company’s consolidated balance sheets.

**(18) BUSINESS AND CREDIT CONCENTRATIONS**

The Company generates a significant portion of its sales in the United States; however, several of its products are sold into various foreign countries, which subject the Company to the risks of doing business abroad. In addition, the Company operates in the footwear industry, which is impacted by the general economy, and its business depends on the general economic environment and levels of consumer spending. Changes in the marketplace may significantly affect the Company’s estimates and its performance. The Company performs regular evaluations concerning the ability of customers to satisfy their obligations and provides for estimated doubtful accounts. Domestic accounts receivable, which generally do not require collateral from customers, amounted to \$228.5 million and \$213.7 million before allowances for bad debts and sales returns, and chargebacks at December 31, 2019 and 2018, respectively. Foreign accounts receivable, which are generally collateralized by letters of credit, amounted to \$440.9 million and \$313.8 million before allowance for bad debts, sales returns, and chargebacks at December 31, 2019 and 2018, respectively. International sales amounted to \$3,022.6 million, \$2,514.0 million and \$2,108.7 million for the years ended December 31, 2019, 2018 and 2017, respectively. The Company’s credit losses charged to expense for the years ended December 31, 2019, 2018 and 2017 were \$31.6 million, \$8.0 million and \$12.8 million, respectively. In addition, the Company recorded sales return expense for the years ended December 31, 2019, 2018 and 2017 were \$46.1 million, \$20.2 million and \$5.6 million, respectively.

Assets located outside the United States consist primarily of cash, accounts receivable, inventory, property, plant and equipment, and other assets. Net assets held outside the United States were \$2,643.8 million and \$1,611.2 million at December 31, 2019 and 2018, respectively.

During 2019, 2018 and 2017, no customer accounted for 10.0% or more of sales. No customer accounted for more than 10% of net trade receivables at December 31, 2019 or 2018. During 2019, 2018 and 2017, sales to the five largest customers were approximately 9.6%, 10.4% and 10.5%, respectively.

The Company’s top five manufacturers produced the following for the years ended December 31, 2019, 2018 and 2017, respectively:

	Percentage of Total Production Year Ended December 31,		
	2019	2018	2017
Manufacturer #1 .....	16.0%	12.8%	17.9%
Manufacturer #2 .....	7.3%	10.1%	11.1%
Manufacturer #3 .....	7.2%	8.6%	8.8%
Manufacturer #4 .....	5.1%	5.4%	5.4%
Manufacturer #5 .....	5.0%	5.0%	4.3%
	40.6%	41.9%	47.5%

The majority of the Company’s products are produced in China and Vietnam. The Company’s operations are subject to the customary risks of doing business abroad, including but not limited to currency fluctuations and revaluations, 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 business risks have not had a material adverse impact on the Company’s operations.

**(19) RELATED PARTY TRANSACTIONS**

The Company paid approximately \$58,000, \$80,000, and \$172,000 during 2019, 2018 and 2017, respectively, to the Manhattan Inn Operating Company, LLC (“MIOC”) for lodging, food and events, which is owned and operated by MIOC. Michael Greenberg, President and a director of the Company, owns a 12% beneficial ownership interest in MIOC, and three other officers, directors and senior vice presidents of the Company own in aggregate an additional 5% beneficial ownership in MIOC. The Company had no outstanding accounts receivable or payable with MIOC or the Shade Hotel in Manhattan Beach at December 31, 2019 or 2018.

The Company paid approximately \$124,000, \$167,000 and \$201,000 during 2019, 2018, and 2017 to the Redondo Beach Hospitality Company, LLC (“RBHC”) for lodging, food and events, including the Company’s 2019, 2018, and 2017 holiday party at the Shade Hotel in Redondo Beach, which is owned and operated by RBHC. Michael Greenberg, President and a director of the Company, owns a 5% beneficial ownership interest in RBHC, and three other officers, directors and senior vice presidents of the Company own in aggregate an additional 3% beneficial ownership in RBHC. The Company had no outstanding accounts receivable or payable with RBHC or the Shade Hotel in Redondo Beach, at December 31, 2019 or 2018.

On July 29, 2010, the Company formed the Skechers Foundation (the “Foundation”), which is a 501(c)(3) non-profit entity that does not have any shareholders or members. The Foundation is not a subsidiary of, and is not otherwise affiliated with the Company, and the Company does not have a financial interest in the Foundation. However, two officers and directors of the Company, Michael Greenberg, the Company’s President, and David Weinberg, the Company’s Chief Operating Officer, are also officers and directors of the Foundation. During the years ended December 31, 2019, 2018, and 2017, the Company made contributions of \$1.0 million to the Foundation in each year.

The Company had receivables from officers and employees of \$0.8 million at December 31, 2019 and 2018, respectively. These amounts relate to travel advances, incidental personal purchases on Company-issued credit cards and employee loans. These receivables are short-term and are expected to be repaid within a reasonable period of time. The Company had no other significant transactions with or payables to officers, directors or significant stockholders of the Company.

## (20) SEGMENT AND GEOGRAPHIC REPORTING

The Company has three reportable segments—domestic wholesale sales, international wholesale sales, and retail sales, which includes direct-to-consumer sales. Management evaluates segment performance based primarily on sales and gross margins. All other costs and expenses of the Company are analyzed on an aggregate basis, and these costs are not allocated to the Company’s segments. Sales, gross margins and identifiable assets for the domestic wholesale, international wholesale, and retail segments on a combined basis were as follows (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Sales			
Domestic wholesale.....	\$ 1,247,550	\$ 1,259,615	\$ 1,249,287
International wholesale.....	2,462,632	2,054,770	1,729,906
Retail.....	1,509,869	1,327,683	1,184,967
Total.....	<u>\$ 5,220,051</u>	<u>\$ 4,642,068</u>	<u>\$ 4,164,160</u>
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Gross profit			
Domestic wholesale.....	\$ 457,944	\$ 468,340	\$ 464,609
International wholesale.....	1,133,573	976,739	786,675
Retail.....	899,640	778,526	687,605
Total.....	<u>\$ 2,491,157</u>	<u>\$ 2,223,605</u>	<u>\$ 1,938,889</u>
	<u>2019</u>	<u>2018</u>	
Identifiable assets			
Domestic wholesale.....	\$ 1,472,323	\$ 1,428,463	
International wholesale.....	2,100,042	1,423,048	
Retail.....	1,320,578	376,744	
Total.....	<u>\$ 4,892,943</u>	<u>\$ 3,228,255</u>	
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Additions to property, plant and equipment			
Domestic wholesale.....	\$ 75,037	\$ 29,717	\$ 20,055
International wholesale.....	109,205	63,316	47,410
Retail.....	51,869	50,003	68,511
Total.....	<u>\$ 236,111</u>	<u>\$ 143,036</u>	<u>\$ 135,976</u>



## Geographic Information

The following summarizes the Company's operations in different geographic areas as of and for the years ended December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Sales <sup>(1)</sup>			
United States.....	\$ 2,197,391	\$ 2,128,100	\$ 2,055,475
Canada .....	167,963	171,864	160,367
Other international <sup>(2)</sup> .....	<u>2,854,697</u>	<u>2,342,104</u>	<u>1,948,318</u>
Total.....	<u>\$ 5,220,051</u>	<u>\$ 4,642,068</u>	<u>\$ 4,164,160</u>
	<u>2019</u>	<u>2018</u>	
Property, plant and equipment, net			
United States.....	\$ 439,132	\$ 385,584	
Canada .....	7,286	9,081	
Other international <sup>(2)</sup> .....	<u>292,507</u>	<u>190,792</u>	
Total.....	<u>\$ 738,925</u>	<u>\$ 585,457</u>	

<sup>(1)</sup> The Company has subsidiaries in Asia, Central America, Europe, the Middle East, North America, and South America that generate sales within those respective countries and in some cases the neighboring regions. The Company has joint ventures in Asia and Mexico that generate sales from those regions. The Company also has a subsidiary in Switzerland that generates sales from that country in addition to sales to distributors located in numerous non-European countries. External sales are attributable to geographic regions based on the location of each of the Company's subsidiaries. A subsidiary may earn revenue from external sales and external royalties, or from inter-subsidiary sales, royalties, fees and commissions provided in accordance with certain inter-subsidiary agreements. The resulting earnings of each subsidiary in its respective country are recognized under each respective country's tax code. Inter-subsidiary revenues and expenses subsequently are eliminated in the Company's consolidated financial statements and are not included as part of the external sales reported in different geographic areas.

<sup>(2)</sup> Other international consists of Asia, Mexico, Central America, Europe, the Middle East, and South America.

In response to the State Department's trade restrictions with Sudan and Syria, the Company does not authorize or permit any distribution or sales of its product in these countries, and the Company is not aware of any current or past distribution or sales of its product in Sudan or Syria.

## (21) SUBSEQUENT EVENTS

The Company has evaluated events subsequent to December 31, 2019, to assess the need for potential recognition or disclosure in this filing. Based on this evaluation, it was determined that no subsequent events occurred that require recognition in the consolidated financial statements.

**(22) SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

The Company believes that the following information reflects all normal recurring adjustments necessary for a fair presentation of the financial information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period. Summarized unaudited financial data are as follows (in thousands, except per share data):

<u>2019</u>	<u>MARCH 31</u>	<u>JUNE 30</u>	<u>SEPTEMBER 30</u>	<u>DECEMBER 31</u>
Sales	\$ 1,276,756	\$ 1,258,565	\$ 1,353,998	\$ 1,330,732
Gross profit .....	590,509	609,835	653,064	637,749
Net earnings .....	131,019	91,998	121,734	82,501
Net earnings attributable to Skechers U.S.A., Inc. ....	108,758	75,180	103,090	59,532
Net earnings per share:				
Basic .....	0.71	0.49	0.67	0.39
Diluted .....	0.71	0.49	0.67	0.39
<u>2018</u>	<u>MARCH 31</u>	<u>JUNE 30</u>	<u>SEPTEMBER 30</u>	<u>DECEMBER 31</u>
Sales	\$ 1,250,078	\$ 1,134,797	\$ 1,176,395	\$ 1,080,798
Gross profit .....	583,104	560,957	563,866	515,678
Net earnings (loss) .....	137,258	60,859	106,051	67,105
Net earnings (loss) attributable to Skechers U.S.A., Inc.....	117,652	45,284	90,728	47,377
Net earnings (loss) per share:				
Basic .....	0.21	0.29	0.58	0.31
Diluted .....	0.21	0.29	0.58	0.31

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

None.

## ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this annual report on Form 10-K are certifications of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), which are required in accordance with Rule 13a-14 of the Exchange Act. This “Controls and Procedures” section includes information concerning the controls and controls evaluation referred to in the certifications.

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods and that such information is accumulated and communicated to allow timely decisions regarding required disclosures. As of the end of the period covered by this annual report on Form 10-K, we carried out an evaluation under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective, at the reasonable assurance level as of such time.

### MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

With the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019, based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management’s assessment of the effectiveness of internal control over financial reporting as of December 31, 2019, excluded Manhattan SKMX, S. de R.L. de C.V., which was acquired by the Company in the second quarter of 2019. Total assets and total sales of Skechers Mexico each constituted less than 3% of the consolidated total assets and total sales as of and for the year ended December 31, 2019. Companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company under guidelines established by the SEC.

Based on our evaluation under the framework in *Internal Control – Integrated Framework (2013)*, our management has concluded that our internal control over financial reporting is effective as of December 31, 2019.

Our independent registered public accountants, BDO USA, LLP, audited the consolidated financial statements included in this annual report on Form 10-K and have issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2019, which is set forth below.

## INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Assessments of any evaluation of controls' effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements as a result of error or fraud may occur and not be detected.

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting during the fourth quarter of 2019. The results of our evaluation are discussed above in Management's Report on Internal Control over Financial Reporting.

## Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors  
Skechers U.S.A., Inc.  
Manhattan Beach, California

### Opinion on Internal Control over Financial Reporting

We have audited Skechers U.S.A., Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the accompanying index and our report dated February 28, 2020, expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As indicated in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Manhattan SKMX, S. De R.L. De C.V. ("Skechers Mexico"), which was acquired on April 1, 2019, and which is included in the consolidated balance sheet of the Company as of December 31, 2019 and the related consolidated statements of earnings, comprehensive income, equity and cash flows for the year then ended. Skechers Mexico constituted 2.6% of total assets as of December 31, 2019 and 1.7% of total sales for the year ended December 31, 2019. Management did not assess the effectiveness of internal control over financial reporting of Skechers Mexico because of the timing of the acquisition which was on April 1, 2019. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Skechers Mexico.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Los Angeles, California

February 28, 2020



**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

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 2019 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 2019 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 2019 fiscal year.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

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 2019 fiscal year.

**ITEM 14. PRINCIPAL ACCOUNTING 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 2019 fiscal year.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

1. Financial Statements: See “Index to Consolidated Financial Statements and Financial Statement Schedule” in Part II, Item 8 on page 45 of this annual report on Form 10-K.
2. Financial Statement Schedule: See “Schedule II—Valuation and Qualifying Accounts” on page 81 of this annual report on Form 10-K.

**ITEM 16. FORM 10-K SUMMARY**

None.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS  
(in thousands)

Years Ended December 31, 2019, 2018, and 2017

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO REVENUE COSTS AND EXPENSES	DEDUCTIONS AND WRITE-OFFS	BALANCE AT END OF YEAR
Year-ended December 31, 2017				
Allowance for chargebacks .....	\$ 10,974	\$ 7,507	\$ (5,674)	\$ 12,807
Allowance for doubtful accounts .....	5,620	5,266	(3,177)	7,709
Liability for sales returns and allowances .....	25,053	5,625	(14)	30,664
Reserve for shrinkage .....	542	2,020	(825)	1,737
Reserve for obsolescence .....	10,928	130	(4,039)	7,019
Year-ended December 31, 2018				
Allowance for chargebacks .....	\$ 12,807	\$ 12,629	\$ (6,663)	\$ 18,773
Allowance for doubtful accounts .....	7,709	2,856	(3,722)	6,843
Liability for sales returns and allowances .....	30,664	20,245	(2,443)	48,466
Reserve for shrinkage .....	1,737	5,771	(5,891)	1,617
Reserve for obsolescence .....	7,019	6,461	(2,344)	11,136
Year-ended December 31, 2019				
Allowance for chargebacks .....	\$ 18,773	\$ 3,931	\$ (5,291)	\$ 17,413
Allowance for doubtful accounts .....	6,843	2,471	(2,621)	6,693
Liability for sales returns and allowances .....	48,466	46,054	(25,472)	69,048
Reserve for shrinkage .....	1,617	5,149	(5,802)	964
Reserve for obsolescence .....	11,136	9,444	(14,816)	5,764

See accompanying report of independent registered public accounting firm

## INDEX TO EXHIBITS

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION OF EXHIBIT</u>
3.1	Amended and Restated Certificate of Incorporation dated April 29, 1999 (incorporated by reference to exhibit number 3.1 of the Registrant's Form 10-Q for the quarter ended September 30, 2015).
3.1(a)	Amendment to Amended and Restated Certificate of Incorporation dated September 24, 2015 (incorporated by reference to exhibit number 3.2 of the Registrant's Form 10-Q for the quarter ended September 30, 2015).
3.2	Bylaws dated May 28, 1998 (incorporated by reference to exhibit number 3.2 of the Registrant's Registration Statement on Form S-1 (File No. 333-60065) filed with the Securities and Exchange Commission on July 29, 1998).
3.2(a)	Amendment to Bylaws dated as of April 8, 1999 (incorporated by reference to exhibit number 3.2(a) of the Registrant's Form 10-K for the year ended December 31, 2005).
3.2(b)	Second Amendment to Bylaws dated as of December 18, 2007 (incorporated by reference to exhibit number 3.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 20, 2007).
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).
4.20	Description of Securities.
10.1*	Skechers U.S.A., Inc. Deferred Compensation Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 3, 2013).
10.2*	2006 Annual Incentive Compensation Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 29, 2016).
10.2(a)*	First Amendment to the 2006 Annual Incentive Compensation Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 29, 2016).
10.3*	2007 Incentive Award Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 24, 2007).
10.4*	Form of Restricted Stock Agreement under 2007 Incentive Award Plan (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-K for the year ended December 31, 2007).
10.5*	2017 Incentive Award Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on May 1, 2017).
10.6*	Form of Restricted Stock Agreement under 2017 Incentive Award Plan. (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-K for the year ended December 31, 2017).
10.7*	2018 Employee Stock Purchase Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on May 1, 2017).
10.8*	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 ended December 31, 1999).
10.8(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 ended December 31, 2005).
10.9	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 quarter ended June 30, 1999).
10.10	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 quarter ended June 30, 1999).

<b><u>EXHIBIT NUMBER</u></b>	<b><u>DESCRIPTION OF EXHIBIT</u></b>
10.11*	Employment Agreement, executed August 7, 2015, effective as of January 1, 2015, between the Registrant and Michael Greenberg (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).
10.11(a)*	Amendment to Employee Agreement dated December 5, 2017, between the Registrant and Michael Greenberg (incorporated by reference to exhibit 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 8, 2017)
10.12*	Employment Agreement, executed April 2, 2018, effective as of January 1, 2018, between the Registrant and David Weinberg (incorporated by reference to exhibit 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 2, 2018).
10.13	Credit Agreement dated June 30, 2015, by and among the Registrant, certain of its subsidiaries who are also borrowers under the Agreement, certain of its subsidiaries who are guarantors under the Agreement, and Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on July 7, 2015).
10.14	Amended and Restated Limited Liability Company Agreement dated April 12, 2010 between Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, regarding the ownership and management of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company (incorporated by reference to exhibit number 10.11 of the Registrant's Form 10-K for the year ended December 31, 2011).
10.14(a)	First Amendment to Amended and Restated Limited Liability Company Agreement dated August 11, 2015 by and between Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, regarding the ownership and management of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 17, 2015).
10.14(b)	Second Amendment to Amended and Restated Limited Liability Company Agreement dated February 12, 2019 by and between Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, regarding the ownership and management of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company (incorporated by reference to exhibit number 10.14(b) of the Registrant's Form 10-K for the year ended December 31, 2018).
10.14(c)	Third Amendment to Amended and Restated Limited Liability Company Agreement dated December 26, 2019 by and between Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, regarding the ownership and management of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company.
10.15	Amended and Restated Loan Agreement dated as of August 12, 2015, by and among HF Logistics-SKX T1, LLC, which is a wholly owned subsidiary of a joint venture entered into between HF Logistics I, LLC, and Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, Bank of America, N.A., as administrative agent and as a lender, and CIT Bank, N.A. and Raymond James Bank, N.A., as lenders (incorporated by reference to exhibit number 10.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 17, 2015).
10.16	Lease Agreement dated September 25, 2007 between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 27, 2007).
10.16(a)	First Amendment to Lease Agreement, dated December 18, 2009, between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-Q for the quarter ended March 31, 2010).
10.16(b)	Second Amendment to Lease Agreement, dated April 12, 2010, between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q for the quarter ended September 30, 2010).

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION OF EXHIBIT</b>
10.16(c)	Assignment of Lease Agreement, dated April 12, 2010, between HF Logistics I, LLC and HF Logistics-SKX T1, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q for the quarter ended September 30, 2010).
10.16(d)	Third Amendment to Lease Agreement, dated August 18, 2010, between the Registrant and HF Logistics-SKX T1, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-Q for the quarter ended September 30, 2010).
10.16(e)	Fourth Amendment to Lease Agreement, dated February 12, 2019, between the Registrant and HF Logistics-SKX T1, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.16(e) of the Registrant's Form 10-K for the year ended December 31, 2018).
10.17	Lease Agreement, dated February 12, 2019, between the Registrant and HF Logistics – SKX T2, LLC, regarding expansion to distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.17 of the Registrant's Form 10-K for the year ended December 31, 2018).
10.18	Lease Agreement, dated August 12, 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 10.28 of the Registrant's Form 10-K for the year ended December 31, 2002).
10.18(a)	Addendum to Lease Agreement, dated January 19, 2006, between Skechers EDC SPRL, 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 10.17(a) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.18(b)	Addendum 2 to Lease Agreement dated May 20, 2008 between Skechers EDC SPRL, 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 10.2 of the Registrant's Form 8-K filed with Securities and Exchange Commission on May 27, 2008).
10.18(c)	Addendum 3 to Agreement dated June 11, 2013 and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.17(c) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.18(d)	Addendum 4 to Agreement dated October 17, 2014 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.17(d) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.19	Lease Agreement dated May 20, 2008 between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III SPRL, regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 27, 2008).
10.19(a)	Addendum 1 to Lease Agreement, dated March 10, 2009, between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III BVBA, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.18(a) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.19(b)	Addendum 2 to Lease Agreement dated December 22, 2009 between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III BVBA, regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.18(b) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.19(c)	Addendum 3 to Agreement dated June 11, 2013 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.18(c) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.19(d)	Addendum 4 to Agreement dated October 17, 2014 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.18(d) of the Registrant's Form 10-K for the year ended December 31, 2015).



<b><u>EXHIBIT NUMBER</u></b>	<b><u>DESCRIPTION OF EXHIBIT</u></b>
10.20	Lease Agreement dated October 17, 2014 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II BVBA, regarding ProLogis Park Liege Distribution Center III in Liege, Belgium (incorporated by reference to exhibit number 10.1 of the Registrant's Form 10-Q for the quarter ended March 31, 2015).
10.20(a)	Addendum to Agreement dated August 3, 2015 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA, and ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Centers I, II and III in Liege, Belgium (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).
10.21	Lease Agreement dated July 10, 2015 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II BVBA, regarding ProLogis Park Liege Distribution Center IV in Liege, Belgium (incorporated by reference to exhibit number 10.2 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).
10.21(a)	Addendum to Agreement dated August 3, 2015 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA, and ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Center IV in Liege, Belgium (incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).
10.22	Lease Agreement dated July 1, 2016 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, and Warehouse and Industrial Properties (W.I.P.) SA, regarding Liegistics Park 34, Avenue du Parc Industriel in Milmort, Belgium (incorporated by reference to exhibit number 10.18 of the Registrant's Form 10-K for the year ended December 31, 2016).
10.23	Lease Agreement dated November 17, 2015 by and between the Registrant and Omni Manhattan Towers Limited Partnership, regarding 1240 Rosecrans Avenue, Suites 300 and 400, Manhattan Beach, California (incorporated by reference to exhibit number 10.19 of the Registrant's Form 10-K for the year ended December 31, 2016).
10.24**	China DC Loan Agreement, dated September 29, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China (incorporated by reference to exhibit number 10.1 of the Registrant's Form 10-Q (File No.001-14429) for the quarter ended September 30, 2018).
10.25	Mortgage Contract, dated August 28, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China (incorporated by reference to exhibit number 10.2 of the Registrant's Form 10-Q (File No.001-14429) for the quarter ended September 30, 2018).
10.26	Guarantee Agreement, dated July 24, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-Q (File No.001-14429) for the quarter ended September 30, 2018).
10.27**	Cooperative Agreement on Close Management of Fixed Asset Loan Project, dated September 29, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China. (Incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q (File No.001-14429) for the quarter ended September 30, 2018).
10.28	Credit Agreement dated November 21, 2019, by and among the Registrant, and Bank of America, N.A., HSBC Bank USA, N.A., JPMorgan Chase Bank, N.A. and other lenders (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with Securities and Exchange Commission on November 21, 2019).
10.29	Guaranty dated November 21, 2019, by and among Skechers USA Retail, LLC, a California limited liability company and wholly owned subsidiary of the Registrant, Bank of America, N.A. and other lenders (incorporated by reference to exhibit number 10.2 of the Registrant's Form 8-K filed with Securities and Exchange Commission on November 21, 2019).
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION OF EXHIBIT</b>
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1***	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data file - the cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2019 has been formatted in Inline XBRL.

\* Management contract or compensatory plan or arrangement required to be filed as an exhibit.

\*\* The Company applied with the Secretary of the Securities and Exchange Commission for confidential treatment of certain information pursuant to Rule 24b-2 of the Exchange Act. The Company filed separately with its application a copy of the exhibit including all confidential portions, which may be made available for public inspection pending the Securities and Exchange Commission's review of the application in accordance with Rule 24b-2.

\*\*\* In accordance with Item 601(b)(32)(ii) of Regulation S-K, this exhibit shall not be deemed "filed" for the purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act or the Exchange Act.

## SIGNATURES

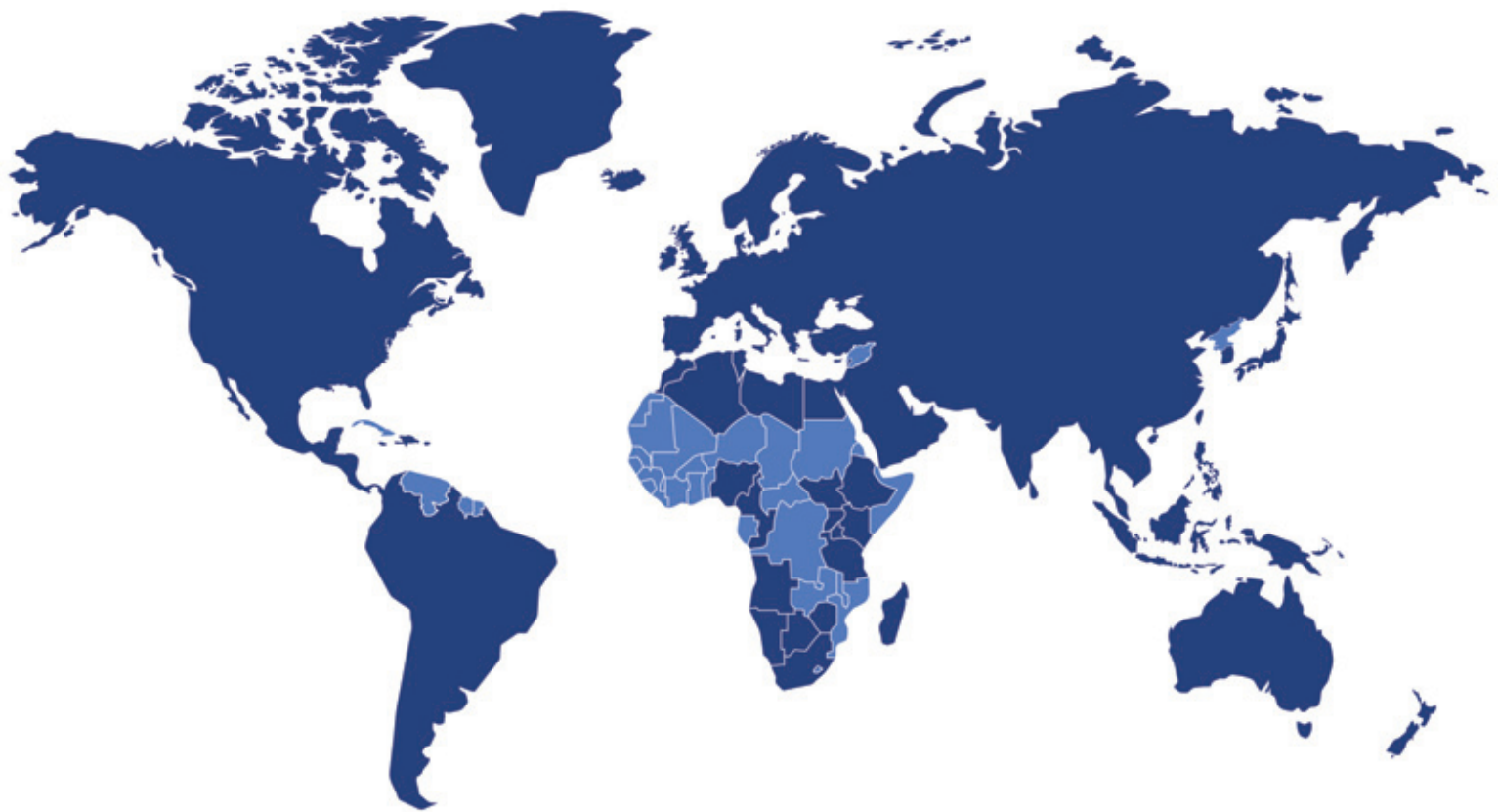
Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Manhattan Beach, State of California on the 28th day of February 2020.

SKECHERS U.S.A., INC.

By: /s/ Robert Greenberg  
Robert Greenberg  
Chairman of the Board and  
Chief Executive Officer

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)	February 28, 2020
<u>/s/ Michael Greenberg</u> Michael Greenberg	President and Director	February 28, 2020
<u>/s/ David Weinberg</u> David Weinberg	Executive Vice President, Chief Operating Officer, and Director	February 28, 2020
<u>/s/ John Vandemore</u> John Vandemore	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2020
<u>/s/ Geyer Kosinski</u> Geyer Kosinski	Director	February 28, 2020
<u>/s/ Jeffrey Greenberg</u> Jeffrey Greenberg	Director	February 28, 2020
<u>/s/ Katherine Blair</u> Katherine Blair	Director	February 28, 2020
<u>/s/ Richard Siskind</u> Richard Siskind	Director	February 28, 2020
<u>/s/ Rick Rappaport</u> Rick Rappaport	Director	February 28, 2020
<u>/s/ Morton D. Erlich</u> Morton D. Erlich	Director	February 28, 2020
<u>/s/ Thomas Walsh</u> Thomas Walsh	Director	February 28, 2020



■ Countries where Skechers product is sold

SKECHERS USA, INC. SKX  
228 Manhattan Beach Blvd. Manhattan Beach, California 90266 LISTED  
NYSE