

SKECHERS USA INC
Form 10-K
March 02, 2009

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

(Mark One)

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

For the fiscal year ended December 31, 2008

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**

(Address of Principal Executive Offices)

90266

(Zip Code)

Registrant's telephone number, including area code: **(310) 318-3100**

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

Title of Each Class	Name of Each Exchange on Which Registered
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Class A Common Stock, \$0.001 par value

New York Stock Exchange

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

None

(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of June 30, 2008, 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 \$657 million based upon the closing price of \$19.76 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 15, 2009: 33,412,409.

The number of shares of Class B Common Stock outstanding as of February 15, 2009: 12,782,385.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement issued in connection with the 2009 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III.

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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 Private Securities Litigation Reform Act of 1995, including statements with regards to future revenue, projected 2009 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, or any variations of such words with similar meanings. Any such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in forward-looking statements.

Factors that might cause or contribute to such differences include: international, national and local general economic, political and market conditions including the recent global economic slowdown and financial crisis; the ability to sustain, manage and forecast our costs and proper inventory levels; the loss of any significant customers, decreased demand by industry retailers and cancellation of order commitments due to the credit crisis in the global financial markets or other difficulties in their businesses; the failure of financial institutions to fulfill their commitments under our secured line of credit; changes in fashion trends and consumer demands; the level of sales during the spring, back-to-school and holiday selling seasons; the ability to anticipate, identify, interpret or forecast changes in fashion trends, consumer demand for the products and the various market factors described above; new standards regarding lead content in children's products including footwear under the Consumer Product Safety Improvement Act of 2008; the ability to maintain brand image; intense competition among sellers of footwear for consumers; further changes to the global economic slowdown that could affect our ability to open retail stores in new markets and/or the sales performance of existing stores; potential disruptions in manufacturing related to overseas sourcing and concentration of production in China, including, without limitation, difficulties associated with political instability in China, the occurrence of a natural disaster or outbreak of a pandemic disease in China, or electrical shortages, labor shortages or work stoppages that may lead to higher production costs and/or production delays; changes in monetary controls and valuations of the Yuan by the Chinese government; increased costs of freight and transportation to meet delivery deadlines; potential imposition of additional duties, tariffs or other trade restrictions; violation of labor or other laws by independent contract manufacturers, suppliers or licensees; popularity of particular designs and categories of products; changes in business strategy or development plans; the ability to attract and retain qualified personnel; the disruption, expense and potential liability associated with existing or unanticipated future litigation; the ability to secure and protect trademarks, patents and other intellectual property; business disruptions resulting from natural disasters such as an earthquake due to the location of domestic warehouse, headquarters and a substantial number of retail stores in California; and other factors referenced or incorporated by reference in this report and other reports that we filed with the United States Securities and Exchange Commission (the "SEC").

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely impact our business and financial performance. 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 future performance. Investors should also be aware that while we do, from time to time, communicate with securities analysts, we do not disclose any material non-public information or other confidential commercial information to them. Accordingly, individuals should not assume that we agree with any statement or report issued by any analyst, regardless of the content of the report. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

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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, and its consolidated subsidiaries as we, us, our, our company and Skechers unless otherwise indicated. Our Internet website address is 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 Securities Exchange Act of 1934 are available free of charge on our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. You can learn more about us by reviewing such filings on our website or at the SEC's website at www.sec.gov.

GENERAL

We design and market Skechers-branded contemporary footwear for men, women and children under several unique lines. Our footwear reflects a combination of style, quality and value that appeals to a broad range of consumers. In addition to Skechers-branded lines, we also offer several uniquely branded designer, fashion and street-focused footwear lines for men, women and children. These lines are branded and marketed separately from Skechers and appeal to specific audiences. Our brands are sold through department stores, specialty stores, athletic retailers, and boutiques as well as catalog and Internet retailers. Along with wholesale distribution, our footwear is available at our e-commerce website and our own retail stores. We operate 84 concept stores, 83 factory outlet stores and 37 warehouse outlet stores in the United States, and 16 concept stores and three factory outlets internationally. Our objective is to profitably grow our operations worldwide while leveraging our recognizable Skechers brand through our strong product lines, innovative advertising and diversified distribution channels.

We seek to offer consumers a vast array of fashionable footwear that satisfies their active, casual, dress casual and dress footwear needs. Our core consumers are style-conscious 12 to 24 year-old men and women attracted to our youthful brand image and fashion forward designs. Many of our best-selling and core styles are also developed for children with colors and materials that reflect a playful image appropriate for this demographic.

We believe that brand recognition is an important element for success in the footwear business. We have aggressively promoted our brands through comprehensive marketing campaigns for men, women and children. During 2008, our Skechers brand was supported by print, television and outdoor campaigns for men and women; animated kids television campaigns featuring our own action heroes and characters; print and outdoor campaigns featuring our endorsee and American Idol winner David Cook; and family-focused celebrity ads that included singer Brandy and reality stars Trista and Ryan Sutter. Our Marc Ecko and Zoo York footwear lines are also supported by print and television ads developed by Marc Ecko. The Red by Marc Ecko women's line featured High School Musical stars Ashley Tisdale and Vanessa Hudgens in print and television campaigns through 2008, while the Zoo York campaign featured skateboarders Donny Barley and Kevin Shetler. Actress Eva Longoria appeared in the Bebe Sport footwear campaign in 2008.

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

Skechers USA. Our Skechers USA category for men and women includes: (i) Casuals, (ii) Dress Casuals, (iii) Relaxed Fit (for men only), (iv) Seriously Lightweight (for men only) (v) Sandals and (vi) Casual Fusion. This category is generally sold through mid-tier retailers, department stores and some footwear specialty shops.

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

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design some with industrial-inspired fashion features. For women, the Casuals category includes basic black and brown oxfords and slip-ons, lug outsole 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.

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 Casual line for women is comprised of trend-influenced stylized boots and shoes, which may include leather uppers, shearling or faux fur lining or trim.

Skechers Relaxed Fit is a line of trend-right casuals for men who want all-day comfort without compromising style. Characteristics of the line include comfortable outsoles, cushioned insoles and quality leather uppers. A category with unique features, we market and package the Skechers Relaxed Fit styles in a shoe box that is distinct from that of other categories in the Skechers USA line of footwear.

Our Seriously Lightweight styles for men primarily consist of designs similar to our casual looks, but feature ultra lightweight outsoles, making them ideal travel and work shoes. A category with unique features, we market and package the Skechers Seriously Lightweight styles in a shoe box that is distinct from that of other categories in the Skechers USA line of footwear.

Our Sandals collection for men and women is designed with many of our existing and proven outsoles for our Casuals, Dress Casuals and Casual Fusion lines, 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.

Our Casual Fusion line is comprised of low-profile, sport-influenced Euro casuals targeted to trend-conscious young men and women. The outsoles are primarily rubber and adopted from our men's Sport and women's Active lines. This collection features leather or nubuck uppers, but may also include mesh.

Skechers Sport. Our Skechers Sport footwear for men and women includes: (i) Joggers, Trail Runners, Sport Hikers, Terrainers, (ii) Performance (for men only), (iii) Skechers D Lites (for women only), and (iv) Sport Sandals. Our Skechers Sport category is distinguished by its technical performance-inspired looks; however, we generally do not promote the technical performance features of these shoes. Skechers Sport is typically sold through specialty shoe stores, department stores and athletic footwear retailers.

Our Jogger, Trail Runner, Sport Hiker and cross trainer-inspired Terrainer designs are lightweight constructions that include cushioned heels, polyurethane midsoles, phylon and other synthetic outsoles, as well as leather or synthetic uppers such as durabuck, cordura and nylon mesh. Careful attention is devoted to the design, pattern and construction of the outsoles, which vary greatly depending on the intended use. This category features earth tones and athletic-inspired hues with contrasting pop colors such as lime green, orange and red in addition to traditional athletic white.

The Performance category is comprised of multi-purpose running shoes that are marketed as men's lifestyle athletic footwear. Some styles include 3M reflective accents, breathable upper construction, quality leathers, abrasion-resistant toe and heel cap, removable moisture wicking molded ethyl vinyl acetate (EVA) sock liner, outsole forefoot flex grooves for improved flexibility, non-marking rubber lugs with impact dispersment technology (IDT), aggressive all terrain traction lugs, external torsion stabilizer and tuned dual-density molded EVA midsole with pronation control.

Skechers D Lites are ultra lightweight women's sneakers that feature sturdy, sculpted midsoles for all-day comfort, durable rubber treads for improved traction and a sole design that provides superior flexibility and cushioning. The uppers are designed in leather, suede, nubuck and mesh. A category with unique features, we market and package Skechers D Lites in a shoe box that is distinct from that of other categories in the Skechers

Sport line of footwear.

Our Sport Sandals 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 a comfortable sport sandal. Sport sandals are designed as seasonal footwear for the consumer who already wears our Skechers Sport sneakers.

Skechers Active. A natural companion to Skechers Sport, Skechers Active has grown from a casual everyday line into a complete line of fusion and sport fusion sneakers for females of all ages. Marked by low-profile outsoles, the Active line is available in a multitude of colors as well as solid white or black, in fabrics, leathers and meshes, and with various closures traditional laces, zig-zag and cross straps, among others. The line also now includes Mary Janes, sandals and open back styles. Active sneakers are typically retailed through specialty casual shoe stores and department stores.

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Skechers Cali. Our Skechers Cali is a line of sneakers, skimmers, wedges and sandals for young women designed to typify the California lifestyle. The uppers are primarily in canvas, fabrics and leather with unique prints, some with patch details. The sandals range from dress casual looks to casual to beach thongs. Skechers Cali is sold through specialty casual shoe stores and department stores.

Skechers Work. Expanding on our heritage of cutting-edge utility footwear, Skechers Work offers a complete line of men's and women's casuals, field boots, hikers and athletic shoes. 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 with jobs that require 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 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, athletic, casuals and clogs are ideal for the service industry. 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, as well as marketed directly to consumers through business-to-business channels.

Skechers Kids. The Skechers Kids line includes: (i) Skechers Kids, which is a range of infants, toddlers, boys and girls boots, shoes and sneakers; (ii) S-Lights and Hot Lights by Skechers; (iii) Skechers Cali for Girls, which is trend-inspired boots, shoes, sandals and dress sneakers; (iv) Airators by Skechers; (v) Skechers Super Z-Strap; (vi) Skechers Bungees; (vii) HyDee HyTop from Skechers; and (viii) Babiez by Skechers. Skechers Kids and Skechers Cali for Girls are comprised primarily of shoes that are designed as takedowns of their adult counterparts, allowing the younger set 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 attendant costs involved in designing and developing new products. In addition, we adapt current fashions from our men's and women's lines by modifying designs and choosing colors and materials that are more suitable for the playful image 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 Kids shoes are available at department stores and specialty and athletic retailers.

The Skechers Kids line includes embellishments or adornments such as fresh colors and fabrics from our Skechers adult shoes. Some of these styles are also adapted for toddlers with softer, more pliable outsoles and for infants with soft, leather-sole crib shoes.

S-Lights and Hot Lights by Skechers are lighted sneakers and sandals for boys and girls. The S-Lights combine patterns of lights on the outsoles and sides of the shoes while Hot Lights feature lights on the front of the toe to simulate headlights as well as on other areas of the shoes. We market and package each of these lines in unique shoe boxes that are distinct from that of other categories in the Skechers Kids line of footwear.

Skechers Cali for Girls is a line of sneakers, skimmers and sandals for young women designed to typify the California lifestyle. The sneakers are designed primarily with canvas uppers in unique prints, some with patch details, on vulcanized outsoles. The skimmers and flats are designed with many of the same upper materials and outsoles as the sneakers.

Airators by Skechers is a line of boys sneakers with a foot-cooling system designed to pump air from the heel through to the toes. The line is marketed with the character Kewl Breeze.

Skechers Super Z-Strap is a line of athletic styled sneakers with a unique z shaped closure system for easy closure. The line is marketed with the character Z-Strap.

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Skechers Bungees is a line of girls sneakers with bungee closures. The line is marketed with the character Elastika.

HyDee HyTop from Skechers is a line of colorful high-top sneakers for young girls. The line is marketed with the character HyDee HyTop.

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Babiez by Skechers is a line of crib shoes for infants. The uppers and outsoles are designed in leather and are extremely flexible for newborn feet.

FASHION AND STREET BRANDS

The Fashion and Street Division and its brands are marketed and packaged separately from Skechers.

Unltd. by Marc Ecko and Red by Marc Ecko. Unltd. by Marc Ecko is a line of men's street-inspired traditional sneakers, fusion sneakers and urban-focused casuals. Red by Marc Ecko is a line of women's classic and fashion-forward fusion sneakers, sandals and Mary Janes for young women. Targeted to the street-savvy 18 to 34 year-old consumer, the footwear reflects Ecko Unltd.'s men's apparel and the Ecko Red women's apparel, and effectively utilizes the globally recognized Rhino logo on the majority of sneakers and casuals. The men's and women's footwear collections are designed in leather, canvas, mesh, as well as other materials. Unltd. by Marc Ecko for boys and Rhino Red for girls sneaker lines primarily consist of takedowns from the adult Marc Ecko footwear lines with additional or different colorways geared toward children and that reflect the boys' and girls' Ecko Unltd. and Ecko Red clothing. The licensed brands are sold through select department stores and specialty retailers.

Zoo York. Zoo York footwear is a line of action sports and lifestyle footwear for men, women and boys. The Zoo York footwear follows the color palette and trends of Zoo York apparel and targets skateboarders and those that embrace skate fashion. The licensed brand is available in skate and specialty shops as well as select athletic and department stores.

310 Premium Footwear. The 310 Premium Footwear collection for men utilizes top-quality leathers, a fashion-forward approach to design and comfort, and materials that are derived from 310 Motoring's customized cars, including wood burl and carbon fiber. The line consists of high-design boots, shoes, and stylized athletic. 310 Premium Footwear is available in select department stores, specialty retailers and urban independents.

Mark Nason and Siren by Mark Nason. Mark Nason is a sophisticated and fashion forward footwear collection, marketed to style-conscious men, designed to complement designer denim and dress casual wear. Primarily crafted and constructed in Italy, the Mark Nason collection is comprised of classic and modern boots, shoes and sandals with distinctive profiles and luxurious hand-distressed leathers. The Mark Nason line distinguishes itself with high quality individual styling and may utilize unique materials such as premium leathers, etched and tattooed leathers, hand-treated, hand-scraped and hand-cut leathers, hand-treated leather uppers and soles, snakeskin and eel skin. Siren by Mark Nason is the ultimate accompaniment to designer denim and casual couture for discerning women. The line's boots are fueled with bold profiles, alluring details and distinct textures. Handcrafted in Italy, the boots utilize premium leathers, hand-treated details, leather outsoles, and some may include snakeskin and other exotic materials. The Mark Nason lines are available in better department stores and boutiques.

Bebe Sport. Skechers acquired the footwear license for Bebe Sport footwear in 2008. Embracing the style and design of the Bebe Sport apparel, the sneaker and sandal line features such details as rhinestones, satin laces, and patent leather. The footwear is designed for women 18 to 34. The licensed brand is available at department stores and specialty boutiques.

Punkrose and Public Royalty. Skechers acquired the junior brands Punkrose and Public Royalty in 2008. Punkrose for women and Public Royalty for men are cutting-edge street ready footwear. Inspired by music, art, fashion, and action sports, the Public Royalty collection consists of high-top and low-top sneakers, slip-ons and boots. Punkrose styles include sneakers, high-tops, skimmers, boots and sandals. Vibrant color combos and get-noticed prints are a trademark of this brand. Both brands are available at department stores, sneaker shops and specialty boutiques.

PRODUCT DESIGN AND DEVELOPMENT

Our principal goal in product design is to generate new and exciting footwear in all of our product lines with contemporary and progressive styles and comfort-enhancing performance features. Targeted to the active, youthful and style-savvy, we design most new styles to be fashionable and marketable to the 12 to 24 year-old consumer, while substantially all of our lines appeal to the broader range of 5 to 40 year-old consumers, with an exclusive selection for infants and toddlers. While some of our shoes have performance features, we generally do not position our shoes in the marketplace as technical performance shoes.

We believe that our products' success is related to our ability to recognize trends in the footwear markets and to design products that anticipate and accommodate consumers' ever-evolving preferences. We are able to quickly

translate the latest fashion trends into stylish, quality footwear at a reasonable price by analyzing and interpreting current and emerging lifestyle trends. Lifestyle trend

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information is compiled and analyzed by our designers from various sources, including the review and analysis of modern music, television, cinema, clothing, alternative sports and other trend-setting media; traveling to domestic and international fashion markets to identify and confirm current trends; consulting with our retail and e-commerce 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 image.

The footwear design process typically begins about nine months before the start of a season. Our products are designed and developed primarily by our in-house design staff. To promote innovation and brand relevance, we utilize dedicated design teams, 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 a design prototype. The design prototypes are then sent back to our design teams. Our major retail customers may also review these new design concepts. Customer input not only allows us to measure consumer reaction to the latest designs, but also affords us an opportunity to foster deeper and more collaborative relationships with our customers. We also occasionally order limited production runs that may initially be tested in our concept stores. By working closely with store personnel, we obtain customer feedback that often influences product design and development. Our design teams can easily and quickly modify and refine a design based on customer input. Generally, the production process can take six months to nine months from design concept to commercialization.

SOURCING

Factories. Our products are produced by independent contract manufacturers located primarily in China and, to a lesser extent, in Italy, Vietnam, Brazil and various other countries. We do not own or operate any manufacturing facilities as 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.

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 attempt to monitor our selection of independent factories to ensure that no one manufacturer is responsible for a disproportionate amount of our merchandise. We source product for styles that account for a significant percentage of our net sales from at least four different manufacturers. During 2008, four of our contract manufacturers accounted for approximately 58.2% of total purchases. One manufacturer accounted for 30.6%, and one other accounted for over 10.0% of our total purchases. To date, we have not experienced difficulty in obtaining manufacturing services.

We finance our production activities in part through the use of interest-bearing open purchase arrangements with certain of our Asian manufacturers. These facilities currently bear interest at a rate between 0% and 1.5% for 30 to 60 days financing, depending on the factory. We believe that the use of these arrangements afford 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 manufacturers and believe our relationships to be good.

We closely monitor sales activity after initial introduction of a product in our concept stores 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 only 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.

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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 an approximately 200-person staff working from our offices in China. 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, and that compensation will be paid according to local law and that the factory is in compliance with local safety regulations.

Quality Control. We believe that quality control is an important and effective means of maintaining the quality and reputation of our products. Our quality control program is designed to ensure that 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 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.

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. The focus of our marketing plan is print and television advertising, which is supported by outdoor, trend-influenced marketing, public relations, promotions and in-store support. In addition, we utilize celebrity endorsers in our advertisements. We also believe our websites and trade shows are effective marketing tools to both consumers and corporate accounts. We have historically budgeted advertising as a percentage of projected net sales.

The majority of our advertising is conceptualized by our in-house design team. We believe that our advertising strategies, methods and creative campaigns are directly related to our success. Through our lifestyle and image-driven advertising, we generally seek to build and increase brand awareness by linking the Skechers brand and our fashion and street brands to youthful, contemporary lifestyles and attitudes. We have built on this approach by featuring select styles in our lifestyle ads. In addition to our compelling Skechers lifestyle ads, we have also created product specific ads for our men's lines to appeal to men as well as women who purchase footwear for men. Our ads are designed to provide merchandise flexibility and to facilitate the brands and product designs' direction of evolving footwear fashions and consumer preferences.

To further build brand awareness and influence consumer spending, we have selectively signed endorsement agreements with celebrities whom we believe would reach new markets. In 2008, we signed American Idol winner David Cook to appear in Skechers marketing campaigns through 2009. In past years, we had similar endorsement agreements for Skechers with singers Ashlee Simpson, Carrie Underwood, Christina Aguilera and Britney Spears, professional basketball player and actor Rick Fox, and actors Robert Downey, Jr., Matt Dillon and Rob Lowe. From time to time, we may sign other celebrities to endorse our brand name and image in order to strategically market our products among specific consumer groups in the future.

In addition to advertising our Skechers branded lines through men's, women's and children's ads, we also support Mark Nason, 310 Premium Footwear, Marc Ecko, Zoo York, Punkrose and Bebe Sport lines through individual unique print and/or television advertisements—some of which may include celebrity endorsees. For Mark Nason, we have focused on key-selling styles in product-driven ads that captured the brand's essence. For the Marc Ecko footwear brands, Marc Ecko's design team has created relevant targeted print and television commercials for men and women. These include a multi-media men's campaign featuring our graffiti painted shoe as well commercials for Unltd. by Marc Ecko for boys. During 2008, High School Musical stars Ashley Tisdale and Vanessa Hudgens were the faces of Red by Marc Ecko, appearing in print, outdoor and television advertisements. Vanessa Hudgens will continue through

2009. For Punkrose, the approach has been lifestyle advertisements that embrace the feeling of the footwear. During 2008, Bebe Sport was supported by actress Eva Longoria who appeared in the print advertisements.

With a targeted approach, our print ads appear regularly in popular fashion and lifestyle consumer publications, such as *GQ*, *Cosmopolitan*, *Elle*, *Lucky*, *In Style*, *Seventeen*, *Maxim*, *Men's Fitness*, and *Complex*, as well as in weekly publications such as *People*,

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Us Weekly, *Star*, *Sports Illustrated* and *InTouch*, among others. Our advertisements also appear in international magazines around the world.

Our television commercials are produced both in-house and through producers that we have utilized in the past and who are familiar with our brands. In 2008, we developed commercials for men, women and children for our Skechers brands, including our animated spots for kids featuring our own action heroes. We have found these to be a cost-effective way to advertise during key national and cable programming in high selling seasons. In 2008, for the first time, we translated our commercials into multiple languages and aired the spots in Brazil, Canada, United Kingdom, France, the Benelux Region, Germany, Spain, Italy, Austria and Switzerland.

Outdoor. In an effort to reach consumers where they shop and in high-traffic areas as they travel to and from work, we continued our multi-level outdoor campaign that included kiosks in key malls across the United States and billboards, transportation systems and telephone kiosks in North America and Europe. We believe these are effective and efficient ways to reach a broad range of consumers and leave a lasting impression for our brands.

Trend-Influenced Marketing/Public Relations. Our public relations objectives are to secure product placement in key fashion magazines, place our footwear on the feet of trend-setting celebrities, and gain positive and accurate press on our company. Through our commitment to aggressively promote our upcoming styles, our products are often featured in leading fashion and pop culture magazines, as well as in select films and popular television shows. Our footwear and our company have been prominently displayed and referenced on news and magazine shows including *Oprah*, *Extra*, *Laura Ingraham on Fox News* and *E!*; and on television programs, including *Burn Notice*, *The Hills*, *The Bachelorette*, and *America's Next Top Model*, among others. We have also amassed an array of prominent product placements in magazines including *Lucky*, *Seventeen*, *OK!*, *US Weekly*, *Mens Fitness*, *Slam*, *Dime* and *Footwear News*. In addition, our brands have been associated with cutting edge events and select celebrities, and our product has been seen worn by trend-setters like Denis Leary, Vin Diesel, Forest Whitaker and Vanessa Hudgens.

Promotions. 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. Our imaginative promotions are consistent with Skechers imaging and lifestyle.

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 and reinforce the image as well as 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 better 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 WSA's The Shoe Show, FFANY, ASR and MAGIC in the United States; GDS, MICAM, Bread & Butter, MODA, Mess Around and Who's Next in Europe; and Couromoda in Brazil. Our dynamic, state-of-the-art trade show exhibits are developed by our in-house architect to showcase our latest product offerings in a lifestyle setting reflective of each of our brands. By investing in innovative displays and individual rooms showcasing each line, our sales force can present a sales plan for each line and buyers are able to truly understand the breadth and depth of our offerings, thereby optimizing commitments and sales at the retail level.

Internet. We also promote our brands through our e-commerce websites www.skechers.com and www.soholab.com. We have also established a unique Internet website for Mark Nason (www.marknason.com) designed to serve primarily as a marketing tool. These websites currently enable us to present information on our products, provide a brand experience and store locations to consumers, and allow consumers the ability to directly

order products on the Internet. These sites also provide us a mechanism for customer feedback as well as allowing us to receive and respond directly to consumer feedback. Our websites are intended to enhance the Skechers and fashion brands, and to increase sales through all our retail channels. Our websites also allow us to leverage our brand awareness at a lower cost than traditional distribution channels.

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PRODUCT DISTRIBUTION CHANNELS

We have four reportable segments—domestic wholesale sales, international wholesale sales, retail sales and e-commerce sales. In the United States, our products are available through a network of wholesale customers comprised of department, athletic and specialty stores. Internationally, our products are available through wholesale customers in more than 100 countries and territories via our global network of distributors and our subsidiaries in Asia, Europe, Canada and Brazil. 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. Fifteen distributors have opened 94 distributor-owned Skechers retail stores in 25 countries as of December 31, 2008.

Domestic Wholesale. We distribute our footwear through the following domestic wholesale distribution channels: department stores, specialty stores, athletic shoe stores and independent retailers, as well as catalog 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 retail locations and new locations of each customer.

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. Our vice presidents and national sales managers report to a 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 customer base through exceptional customer service. We believe that our close relationships with these accounts help us to maximize their retail sell-throughs. Our visual merchandise coordinators work with our wholesale customers to ensure that our merchandise and point-of-purchase marketing materials are properly presented. Sales executives and merchandise personnel work closely with accounts to ensure 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.

International Wholesale. Our products are sold in more than 100 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 subsidiaries in Canada, France, Germany, Spain, Portugal, Italy, Switzerland, Austria, Malaysia, Thailand, the Benelux Region, the United Kingdom and Brazil; (ii) sales to foreign distributors who distribute our footwear to department stores and specialty retail stores in countries and territories across Eastern Europe, Asia, Latin America, South America, Africa, the Middle East and Australia, among other regions; 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 distribute product in most of Western Europe through the following subsidiaries: Skechers USA Ltd., with its offices and showrooms in London, England; Skechers S.a.r.l., with its offices and showrooms 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,

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Spain; Skechers USA Benelux B.V., with its offices and showrooms in Waalwijk, the Netherlands; and Skechers USA Italia S.r.l., with its offices and showroom in Verona, Italy.

Skechers-owned retail stores in Europe include eight concept stores and two factory outlet stores located in six countries, including the key locations of Oxford Street in London, Altstadt District in Düsseldorf and Kalverstraat Street in Amsterdam.

To accommodate our European subsidiaries' operations, we operate an approximately 240,000 square foot distribution center in Liege, Belgium. This distribution center is currently used to store and deliver product to our subsidiaries and retail stores throughout Europe. During 2008, we entered into a lease to add an additional 250,000 square foot distribution facility adjacent to our existing facility which we expect to occupy in 2009.

Canada

Merchandising and marketing of our product in Canada is managed by our wholly-owned subsidiary, 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 Ontario, California. We have two concept stores, Toronto's Eaton Centre and West Edmonton Mall, and one factory outlet store in Toronto.

Malaysia, Singapore and Thailand

Merchandising and marketing of our product in Malaysia and Thailand is managed by two of our subsidiaries, Skechers Malaysia Sdn. Bhd. and Skechers (Thailand) Limited with their respective offices in Kuala Lumpur and Bangkok. Product sold in these countries is primarily sourced from a third party distribution center in Selangor, Malaysia. We have six concept stores in Malaysia and Thailand: three in Kuala Lumpur, two in Selangor, and one in Bangkok. We also established a subsidiary in Singapore, Skechers Singapore Pte. Ltd. We entered into an agreement in November 2008 to contribute certain assets and shares of stock of these subsidiaries to Skechers Southeast Asia Limited, a joint venture in which we have a 50% interest.

Brazil

Merchandising and marketing of our product in Brazil is managed by our wholly-owned subsidiary, Skechers Do Brasil Calçados LTDA., with its offices located in Sao Paulo, Brazil. Product sold in Brazil is primarily shipped directly from our contract manufacturers' factories in China and occasionally from our U.S. distribution center in Ontario, California.

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 generate net sales in those countries. Under the joint venture agreements, the joint venture partners contribute capital in proportion to their respective ownership interests. The joint ventures operate 15 direct-owned stores and in excess of 90 shops-in-shop in China and 6 direct-owned stores and 11 shops-in-shop in Hong Kong. The joint ventures are included in our 2008 consolidated financial statements.

Distributors

Outside of Western Europe and Canada, our footwear is distributed through an extensive network of more than 30 distributors who sell our products to department, athletic and specialty stores in more than 100 countries around the world. Through agreements with 15 of these distributors, 94 distributor-owned Skechers retail stores are open in 25 countries, including 37 stores that were opened in 2008, while three distributor-owned stores were closed.

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REGION	STORE FORMAT	NUMBER OF STORES	LOCATION ⁽¹⁾
<i>Asia</i>	Concept	16	Japan (2); Korea (10); Philippines (2); Taiwan (2)
	Warehouse	4	Japan (4)
<i>Australia</i>	Concept	2	Melbourne, Sydney
	Warehouse	5	Cairns, Canberra, Melbourne, Perth, Sydney
<i>Central America/ South America</i>	Concept	38	Chile (10); Columbia (9); Ecuador (2); Guatemala (2); Panama (2); Peru (3); Venezuela (10)
<i>Eastern Europe</i>	Concept	10	Czech Republic; Russia (7); Turkey; Ukraine
<i>Northern Europe</i>	Concept	7	Denmark; Estonia (2); Finland; Lithuania (3)
<i>Middle East</i>	Concept	10	Bahrain (2); Kuwait (2); Saudi Arabia; UAE (5)
	Warehouse	1	UAE
<i>South Africa</i>	Concept	1	Sandton

(1) One store per location except as otherwise noted.

The distributors 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 flagship retail stores with distributors that have local market expertise.

Retail Stores. We pursue our retail store strategy through our three integrated retail formats: the concept store, the factory outlet store and the warehouse outlet store. Our three store 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. As of February 15, 2009, we owned and operated 84 concept stores, 83 factory outlet stores and 37 warehouse outlet stores in the United States, and 16 concept stores and three factory outlet stores internationally. We closed two stores and opened 34 new stores in 2008. We plan to open an additional 15 to 18 domestic stores and two international stores by the end of 2009.

Concept Stores.

Our concept stores are located at either marquee street locations or in major shopping malls in large metropolitan cities. Our concept stores have a threefold purpose in our operating strategy. First, concept stores serve as a showcase for a wide range of our product 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 a cutting-edge, 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 and 34th Street in New York, Powell Street in San Francisco, Hollywood and Highland in Hollywood, Santa Monica's Third Street Promenade, Dallas Northpark Center, Las Vegas Fashion Show Mall, Seattle's Bellevue Square Mall, and Woodfield Mall outside Chicago. International locations include Oxford Street in London, Altstadt District in Dusseldorf,

Toronto's Eaton Centre, and Kalverstraat Street in Amsterdam. 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. We opened 19 domestic concept stores and three international concept stores, and we closed two domestic concept stores in 2008.

The typical Skechers concept store is approximately 2,500 square feet, although in certain markets we have opened concept stores as large as 7,800 square feet or as small as 1,500 square feet. When deciding where to open concept stores, we

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identify top geographic markets in the larger metropolitan cities in the United States, Canada, Europe and Asia. 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 throughout the United States. In addition, we have three international outlet stores—one in Canada, one in England, and one in Scotland. 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 1,900 to 9,000 square feet. Inventory in these stores is supplemented by certain first-line styles sold at full retail price points. We opened 10 domestic factory outlet stores and one international factory outlet store in 2008.

Warehouse Outlet Stores.

Our free-standing warehouse outlet stores, which are located throughout the United States, enable us to liquidate excess merchandise, discontinued lines and odd-size inventory in a cost-efficient manner. Skechers' warehouse outlet stores range in size from approximately 5,200 to 13,500 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 in order to facilitate the timely transfer of inventory that we want to liquidate as soon as practicable. We opened two new domestic warehouse outlet stores in 2008.

Electronic Commerce. Our websites, www.skechers.com and www.soholab.com are virtual storefronts that promote the Skechers and Fashion and Street Division's brands. Our websites are 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 have provided a convenient alternative-shopping environment and brand experience. These websites are an efficient and effective additional retail distribution channel, and they have improved our customer service.

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 in order to design and market their footwear.

As of January 31, 2009, we had 12 active domestic and international licensing agreements in which we are the licensor. We have international licensing agreements for the design and distribution of men's and women's active apparel in Israel; men's and women's apparel in select European countries; bags in select Central and South American countries; watches in the Philippines; and apparel in Japan and Korea.

Additionally, we have signed agreements to design, develop and market footwear for the street lifestyle apparel brands Ecco Unltd., Ecco Red, Red by Marc Ecco, and Zoo York under the Marc Ecco Enterprises umbrella as well as TapouT and Bebe Sport.

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 five distribution centers located in Ontario, California, which measure in aggregate approximately 1.7 million square-feet; (ii) to our approximately 240,000 square-foot distribution center located in Liege, Belgium or (iii) 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

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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, or EDI system, to which some of our larger customers are linked. This system allows these customers to automatically place orders with us, thereby eliminating the time involved in transmitting and inputting orders, and it includes direct billing and shipping information.

During 2007, we entered into an eleven-year lease to build a new 1.8 million square foot distribution facility in Moreno Valley, California, which when completed we expect to occupy in 2010. This single facility will replace the existing five facilities located in Ontario, California, of which four are on short-term leases. In addition during 2008, we entered into a twenty-year lease to add an additional 250,000 square foot distribution facility adjacent to our existing facility in Liege, Belgium, which we expect to occupy in 2009.

BACKLOG

As of December 31, 2008, our backlog was \$325.3 million, compared to \$416.5 million as of December 31, 2007. Backlog orders are subject to cancellation by customers, as evidenced by the cancellations that we have recently experienced due to the weakening U.S. economy. For a variety of reasons, including changes in the economy, customer demand for our products, the timing of shipments, product mix of customer orders, the amount of in-season orders and a shift towards tighter lead times within backlog levels, backlog may not be a reliable measure of future sales for any succeeding period.

INTELLECTUAL PROPERTY RIGHTS

We own and utilize a variety of trademarks, including the Skechers trademark. We have a significant number of both registrations and pending applications for our trademarks in the United States. In addition, we have trademark registrations and trademark applications in approximately 94 foreign countries. We also have design patents and pending design and utility patent applications in both the United States and approximately 27 foreign countries. We continuously look to increase the number of our patents and trademarks both domestically and internationally where necessary to protect valuable intellectual property. We regard our trademarks and other intellectual property as valuable assets and believe that they have significant value in the marketing of our products. We vigorously protect our trademarks against infringement, including through the use of cease and desist letters, administrative proceedings and lawsuits.

We rely on trademark, patent, copyright and trade secret protection, non-disclosure agreements and licensing arrangements to establish, protect and enforce intellectual property rights in our logos, tradenames and in the design of our products. In particular, we believe that our future success will largely depend on our ability to maintain and protect the Skechers trademark 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 and results of operations. In addition, although any such claims may ultimately prove to be without merit, the necessary management attention to and legal costs associated with litigation or other resolution of future claims concerning trademarks and other intellectual property rights could materially and adversely affect our business, financial condition and results of operations. We have sued and have been sued by third parties for infringement of intellectual property. It is our opinion that none of these claims 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 and results of operations.

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COMPETITION

Competition in the footwear industry is intense. Although we believe that we do not compete directly with any single company with respect to its entire range of products, our products compete with other branded products within their product category as well as with private label products sold by retailers, including some of our customers. Our utility footwear and casual shoes compete with footwear offered by companies such as The Timberland Company, Dr. Martens, Kenneth Cole Productions Inc., Steven Madden, Ltd., Wolverine World Wide, Inc., and V.F. Corporation. Our athletic lifestyle shoes compete with footwear offered by companies such as Nike, Inc., adidas AG, Puma AG, New Balance Athletic Shoe, Inc. and K-Swiss Inc. Our children's shoes compete with footwear offered by companies such as Collective Brands 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 considerations. These and other competitors pose challenges to our market share in our major domestic markets and may make it more difficult to establish our products in Europe, Asia and other international regions. We also compete with numerous manufacturers, importers and distributors of footwear for the limited shelf space available for the display of such products to the consumer. Moreover, the general availability of contract manufacturing capacity allows ease of access by new market entrants. Many of our competitors are larger, have been in existence for a longer period of time, have achieved greater recognition for their brand names, have captured greater market share and/or have substantially greater financial, distribution, marketing and other resources than 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 and results of operations.

EMPLOYEES

As of February 1, 2009, we employed 4,130 persons, 2,112 of whom were employed on a full-time basis and 2,018 of whom were employed on a part-time basis. None of our employees is 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.

The Effects Of The Recent Global Economic Slowdown May Continue To Have A Negative Impact On Our Business, Results Of Operations Or Financial Condition.

The recent global economic slowdown has caused disruptions and extreme volatility in global financial markets, increased rates of default and bankruptcy, and declining consumer and business confidence, which has led to decreased levels of consumer spending, particularly on discretionary items such as footwear. These macroeconomic developments have and could continue to negatively impact our business, which depends on the general economic environment and levels of consumer spending in the United States and other parts of the world that affect not only the ultimate consumer, but also retailers, who are our primary direct customers. As a result, we may not be able to maintain or increase our sales to existing customers, make sales to new customers, open and operate new retail stores, maintain sales levels at our existing stores, maintain or increase our international operations on a profitable basis, or maintain or improve our earnings from operations as a percentage of net sales. If the global economic slowdown continues for a significant period or continues to worsen, our results of operations, financial condition, and cash flows could be materially 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. However, the current global economic slowdown makes it increasingly difficult of 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 could significantly impair our brand image and have a material adverse effect on our operating results and financial condition. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply the quality products that we

require at the time we need them, we may experience

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inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer and distributor relationships, and diminish brand loyalty.

Our Business Could Be Adversely Affected By Changes In The Business Or Financial Condition Of Significant Customers Due To The Current And Future Conditions In The Global Financial Markets.

The current global financial crisis affecting the banking system and financial markets and the possibility that financial institutions may consolidate or go out of business have 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. There could be a number of follow-on effects from the credit crisis on our business, including insolvency of certain of our key distributors, which could impair our distribution channels, or our significant customers, including our distributors, may experience diminished liquidity or an inability to obtain credit to finance purchases of our product. Our customers may also experience weak demand for our products or other difficulties in their businesses. If conditions in the global financial markets become more severe or continue longer than we anticipate, our forecasted demand may not materialize to the levels that we require to achieve our anticipated financial results. Any of these events would likely harm our business, results of operations and financial condition.

We May Have Difficulty Managing Our Costs As A Result Of The Recent Global Economic Slowdown.

Our future results of operations will depend on our overall ability to manage our costs. These challenges include (i) managing our infrastructure, including the anticipated addition of our new warehouse facility in Moreno Valley, California, (ii) retaining and hiring, as required, the appropriate number of qualified employees, (iii) managing inventory levels and (iv) controlling other expenses. If the global economic slowdown worsens and leads to an unexpected decline in our revenues without a corresponding and timely reduction in expenses or a failure to manage other aspects of our operations, that could have a material adverse effect on our business, results of operations or financial condition.

We May Be Adversely Affected By The Failure Of Financial Institutions To Fulfill Their Commitments Under Our Secured Line Of Credit.

As discussed in Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources) of this report, we have a secured line of credit with financial institutions available for our use, for which we pay commitment fees. The line of credit is provided by a syndicate of three financial institutions, with each institution agreeing severally (and not jointly) to make revolving credit loans to us in accordance with the terms of the related loan agreement. If one or more of the financial institutions providing the line of credit were to default on its obligation to fund its commitment, the portion of the line of credit provided by such defaulting financial institution would not be available to us, which could have a material adverse effect on our liquidity and financial condition.

Our Future Success Depends On Our Ability To Respond To Changing Consumer Demands, Identify And Interpret Fashion Trends And Successfully Market New Products.

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

Our Children's Shoe Business May Be Negatively Impacted By The Consumer Product Safety Improvement Act Of 2008.

The Consumer Product Safety Commission has issued new standards, effective February 10, 2009, under the Consumer Product Safety Improvement Act of 2008 (CPSIA) regarding lead content in consumer products directed at children 12 years of age and under, including children s shoes. The new standard applies retroactively to all products that exist on February 10, 2009 and it is not

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limited to new manufacturing. We have been working to ensure that covered products are appropriately tested. There is still uncertainty regarding the meaning of the CPSIA and how it applies to products or product components and the level of detail that each of our retailers will require. Consequently, we are unable to predict whether the total financial impact of these new standards will have a material adverse impact on our business, results of operation or financial condition.

Our Business And The Success Of Our Products Could Be Harmed If We Are Unable To Maintain Our Brand Image.

Our success to date has been due in large part to the strength of the Skechers brand, and to a lesser degree, the reputation of our fashion brands. If we are unable to timely and appropriately respond to changing cx solid #000000; padding-right:2pt">

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,199,098 (1)

12

CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

3.6%

14

TYPE OF REPORTING PERSON

PN

(1) Solely in its capacity as the investment manager of Oaktree Huntington Investment Fund II GP, L.P.

CUSIP No. 8676EP108

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Oaktree Holdings, Inc.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

Not applicable

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS
2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 3,199,098 (1)
8 SHARED VOTING POWER

OWNED BY

EACH

REPORTING 9 None
SOLE DISPOSITIVE POWER

PERSON

WITH 3,199,098 (1)
10 SHARED DISPOSITIVE POWER

None

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

3,199,098 (1)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

3.6%

14 TYPE OF REPORTING PERSON

CO

(1) Solely in its capacity as the general partner of Oaktree Capital Management, L.P.

CUSIP No. 8676EP108

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Oaktree Capital Group, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

Not applicable

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS
2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 19,426,032 (1)
8 SHARED VOTING POWER

OWNED BY

EACH

REPORTING 9 None
SOLE DISPOSITIVE POWER

PERSON

WITH 19,426,032 (1)
10 SHARED DISPOSITIVE POWER

None

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

19,426,032 (1)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

19.8%

14 TYPE OF REPORTING PERSON

OO

(1) Solely in its capacity as the managing member of Oaktree Holdings, LLC and as the sole shareholder of Oaktree Holdings, Inc.

CUSIP No. 8676EP108

1 NAME OF REPORTING PERSON OR
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Oaktree Capital Group Holdings GP, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

Not applicable

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS

2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 19,426,032 (1)
8 SHARED VOTING POWER

OWNED BY

EACH

REPORTING 9 None
SOLE DISPOSITIVE POWER

PERSON

WITH 19,426,032 (1)
10 SHARED DISPOSITIVE POWER

None

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

19,426,032 (1)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

19.8%

14 TYPE OF REPORTING PERSON

OO

(1) Solely in its capacity as the manager of Oaktree Capital Group, LLC.

Amendment No. 4 to Schedule 13D

This Amendment No. 4 (Amendment No. 4) amends and supplements the Schedule 13D filed with the Securities and Exchange Commission (the SEC) on October 17, 2016, as amended by Amendment No. 1 to the Schedule 13D filed on March 8, 2017, as further amended by Amendment No. 2 to the Schedule 13D filed on May 10, 2017, and as further amended by Amendment No. 3 to Schedule 13D filed on May 17, 2017 (as amended, the Schedule 13D). Except as set forth herein, the Schedule 13D remains in full force and effect. Each capitalized term used but not defined herein has the meaning ascribed to such term in the Schedule 13D.

Item 3. Source and Amount of Funds or Other Consideration

Item 3 of the Schedule 13D is hereby amended and supplemented to add the following:

The source of funds for the transactions described in Item 5(c) was the capital contributions of the respective limited partners of the Oaktree Funds. No borrowed funds were used to purchase such Common Shares.

Item 5. Interest in Securities of the Issuer

Items 5(a)-(b) of the Schedule 13D are hereby amended and supplemented as follows:

(a) and (b)

Ownership percentages set forth in this Amendment No. 4 are based upon a total of 86,707,385 Common Shares of the Issuer issued and outstanding, as reported in the Issuer's Quarterly Report on Form 10-Q filed with the SEC on November 8, 2017, and assuming the conversion of Preferred Shares beneficially owned by each Reporting Person, as applicable, into Common Shares.

Organics directly holds 16,226,934 Common Shares representing approximately 16.9% of the issued and outstanding Common Shares (in each case, assuming the conversion of Preferred Shares held by it into 9,492,800 shares of Common Shares), and has the sole power to vote and dispose of such Common Shares.

OHIF II LP directly holds 3,199,098 Common Shares representing approximately 3.6% of the issued and outstanding Common Shares (in each case, assuming the conversion of Preferred Shares held by it into 1,840,533 shares of Common Shares), and has the sole power to vote and dispose of such Common Shares.

Item 5(c) of the Original Schedule 13D is hereby amended and supplemented as follows:

(c)

Information concerning transactions in the Common Shares effected by the Reporting Persons during the past sixty days is set forth in Annex A hereto and is incorporated herein by reference. The transactions in Common Shares listed herein were effected as trades over the NASDAQ Global Select Market.

SIGNATURE

After reasonable inquiry and to the best of its knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated as of December 15, 2017

OAKTREE ORGANICS, L.P.

By: Oaktree Fund GP, LLC
Its: General Partner

By: Oaktree Fund GP I, L.P.
Its: Managing Member

By: /s/ Brian Price
Name: Brian Price
Title: Authorized Signatory

**OAKTREE HUNTINGTON
INVESTMENT FUND II, L.P.**

By: Oaktree Huntington Investment Fund II
GP, L.P.
Its: General Partner

By: Oaktree Fund GP, LLC
Its: General Partner

By: Oaktree Fund GP, I, L.P.
Its: Managing Member

By: /s/ Brian Price
Name: Brian Price
Title: Authorized Signatory

**OAKTREE HUNTINGTON
INVESTMENT FUND II GP, L.P.**

By: Oaktree Fund GP, LLC
Its: General Partner

By: Oaktree Fund GP I, L.P.
Its: Managing Member

By: /s/ Brian Price
Name: Brian Price
Title: Authorized Signatory

OAKTREE FUND GP, LLC

By: Oaktree Fund GP I, L.P.
Its: Managing Member

By: /s/ Brian Price
Name: Brian Price
Title: Authorized Signatory

OAKTREE FUND GP I, L.P.

By: /s/ Brian Price
Name: Brian Price
Title: Authorized Signatory

OAKTREE CAPITAL I, L.P.

By: /s/ Brian Price
Name: Brian Price
Title: Vice President

OCM HOLDINGS I, LLC

By: /s/ Brian Price
Name: Brian Price
Title: Vice President

OAKTREE HOLDINGS, LLC

By: /s/ Brian Price
Name: Brian Price
Title: Vice President

**OAKTREE CAPITAL MANAGEMENT,
L.P.**

By: /s/ Brian Price
Name: Brian Price
Title: Vice President

OAKTREE HOLDINGS, INC.

By: /s/ Brian Price
Name: Brian Price
Title: Vice President

OAKTREE CAPITAL GROUP, LLC

By: Oaktree Capital Group Holdings GP, LLC
Its: Manager

By: /s/ Brian Price
Name: Brian Price
Title: Vice President

**OAKTREE CAPITAL GROUP
HOLDINGS GP, LLC**

By: /s/ Brian Price
Name: Brian Price
Title: Vice President

ANNEX A**TRANSACTIONS IN COMMON SHARES BY THE REPORTING PERSONS**

The following tables set forth all transactions in Common Shares effected by the Reporting Persons in the past sixty days. All prices per share exclude commissions. The transactions set forth below were effected as trades over the NASDAQ Global Select Market.

Oaktree Organics, L.P.

Date of Transaction	Total Shares Purchased	Price Per Share
12/15/2017	3,055,460	\$ 7.50

Oaktree Huntington Investment Fund II, L.P.

Date of Transaction	Total Shares Purchased	Price Per Share
12/15/2017	644,540	\$ 7.50