

REGISTRATION NO. 333-60065

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SKECHERS U.S.A., INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>			
<S>	<C>	<C>	
DELAWARE	5139	95-4376145	
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)	
</TABLE>			

228 MANHATTAN BEACH BOULEVARD
MANHATTAN BEACH, CALIFORNIA 90266
(310) 318-3100
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

ROBERT GREENBERG
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
MICHAEL GREENBERG
PRESIDENT
SKECHERS U.S.A., INC.
228 MANHATTAN BEACH BOULEVARD
MANHATTAN BEACH, CALIFORNIA 90266
(310) 318-3100
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF AGENTS FOR SERVICE)

COPIES TO:

<TABLE>		
<S>	<C>	
THOMAS J. POLETTI, ESQ.	BARRY E. TAYLOR, ESQ.	
SUSAN B. KALMAN, ESQ.	CRAIG D. NORRIS, ESQ.	
KATHERINE J. BLAIR, ESQ.	ANNA ITOI, ESQ.	
FRESHMAN, MARANTZ, ORLANSKI, COOPER & KLEIN	WILSON SONSINI GOODRICH & ROSATI,	
9100 WILSHIRE BOULEVARD, SUITE 8E	PROFESSIONAL CORPORATION	
BEVERLY HILLS, CALIFORNIA 90212	650 PAGE MILL ROAD	
TELEPHONE (310) 273-1870	PALO ALTO, CALIFORNIA 94304	
FACSIMILE (310) 274-8357	TELEPHONE (650) 493-9300	
	FACSIMILE (650) 493-6811	
</TABLE>		

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: []

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

CALCULATION OF REGISTRATION FEE

<TABLE>

<S>	<C>	<C>	<C>	<C>
TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Class A Common Stock, \$.001 par value.....	12,322,250 shares	\$15.00	\$184,833,750	\$51,384(3)

</TABLE>

(1) Includes 1,607,250 shares that the Underwriters have the option to purchase solely to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(a) under the Securities Act of 1933.

(3) \$33,942 of this amount has been previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION

APRIL 9, 1999

10,715,000 SHARES

SKECHERS U.S.A., INC.

[LOGO]

CLASS A COMMON STOCK

This is the initial public offering of Skechers U.S.A., Inc. Of the 10,715,000 shares of Class A common stock being offered, we are offering 8,925,000 shares and one of our stockholders is offering 1,790,000 shares. We will not receive any proceeds from the sale of stock by the selling stockholder. We anticipate that the initial public offering price will be between \$13.00 and \$15.00 per share.

We intend to apply to list our Class A common stock on the New York Stock Exchange under the symbol "SKX."

INVESTING IN THE CLASS A COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 9.

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	PER SHARE	TOTAL
	-----	-----
<S>	<C>	<C>
Public offering price.....	\$	\$
Underwriting discounts and commissions.....	\$	\$
Proceeds, before expenses, to Skechers U.S.A., Inc.....	\$	\$
Proceeds to the selling stockholder.....	\$	\$

</TABLE>

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The selling stockholder has also granted the underwriters a 30-day option to purchase up to 1,607,250 additional shares of Class A common stock to cover any over-allotments. We will not receive any proceeds from the sale of Class A common stock by the selling stockholder in the event the over-allotment option is exercised.

, 1999

[PICTURES]

CERTAIN PERSONS PARTICIPATING IN THE OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE CLASS A COMMON STOCK, INCLUDING PURCHASES OF THE CLASS A COMMON STOCK TO STABILIZE ITS MARKET PRICE, PURCHASES OF THE CLASS A COMMON STOCK TO COVER SOME OR ALL OF A SHORT POSITION IN THE CLASS A COMMON STOCK MAINTAINED BY THE UNDERWRITERS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and Consolidated Financial Statements, including the Notes thereto, appearing elsewhere in this Prospectus. This Prospectus, in addition to historical information, contains forward-looking statements including, but not limited to, statements regarding the Company's plans to increase the number of retail locations and styles of footwear, the maintenance of customer accounts and expansion of business with such accounts, the successful implementation of the Company's strategies, future growth and growth rates and future increases in net sales, expenses, capital expenditures and net earnings. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "may," "will," "intends," "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties, and the Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

THE COMPANY

Skechers U.S.A., Inc. ("Skechers" or the "Company") designs and markets branded contemporary casual, active, rugged and lifestyle footwear for men, women and children. The Company's objective is to become a leading source of contemporary casual and active footwear while ensuring the longevity of both the Company and the Skechers brand name through controlled, well managed growth. The Company strives to achieve this objective by developing and offering a balanced assortment of basic and fashionable merchandise across a wide spectrum of product categories and styles, while maintaining a diversified, low-cost sourcing base and controlling the growth of its distribution channels. The Company sells its products to department stores such as Nordstrom, Macy's, Dillard's, Robinson's-May and JC Penney and specialty retailers such as Genesco's Journeys and Jarman chains, The Venator Group's Foot Locker and Lady Foot Locker chains, Pacific Sunwear and Footaction U.S.A. The Company also sells its products both internationally in over 120 countries and territories through major international distributors and directly to consumers through 37 of its own retail stores.

The Company has realized rapid growth since inception, increasing net sales at a compound annual growth rate of 42.4% from \$90.8 million in 1994 to \$372.7 million in 1998. From 1997 to 1998, the Company experienced a 102.7% and 117.4% increase in net sales and earnings from operations, respectively. The Company also experienced an improvement in gross profit as a percentage of net sales from 37.4% to 41.5% and in earnings from operations as a percentage of net sales from 8.5% to 9.1% over this same period. These improvements resulted in part

from the shift to offering Skechers product exclusively and in part from economies of scale.

Management believes the Skechers product offerings of men's, women's and children's footwear appeal to a broad customer base between the ages of 5 and 40 years. Management believes the Company's strategy of providing a growing and balanced assortment of quality basic footwear and seasonal and fashion footwear with progressive styling at competitive prices gives Skechers this broader based customer appeal. Skechers men's and women's footwear are primarily designed with the active, youthful lifestyle of the 12 to 25 year old age group in mind. The Company's product offerings include casual and utility oxfords, loggers, boots and demi-boots; skate, street and fashion sneakers; hikers, trail runners and joggers; sandals, slides and other open-toe footwear; and dress casual shoes. The Company continually seeks to increase the number of styles offered and the breadth of categories with which the Skechers brand name is identified. This style expansion and category diversification is balanced by the Company's strong performance in its basic styles. The Company increased its styles offered from approximately 600 for the year ended December 31, 1997 to approximately 900 for the year ended December 31, 1998. Management believes that a substantial portion of the Company's gross sales were generated from styles which management considers basic.

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The Company's strategy in children's footwear is to adapt current fashion from the Company's men's and women's lines by modifying designs and choosing colors and materials that are more suitable to the playful image Skechers has established in the children's footwear market. The Skechers children's line is comprised primarily of shoes that are designed like their adult counterparts but in "takedown" versions, so that the younger set can wear the same popular styles as their older siblings and schoolmates. The playful image of Skechers children's footwear is further enhanced by the Company's Skechers Lights line, which features motion- and contact-activated lights in the outsole and other areas of the shoes. During 1998, the Company's gross wholesale footwear sales were derived 42.1% from men's, 42.2% from women's and 15.7% from children's footwear.

The Company was founded in 1992 as a distributor of Dr. Martens footwear. The Company began designing and marketing men's footwear under the Skechers brand name and other brand names including "Cross Colours," "Karl Kani" and "So . . . L.A." in 1992. Shortly after launching these branded footwear lines, the Company discontinued distributing Dr. Martens footwear. In 1995, the Company began to shift its focus to the Skechers brand name by de-emphasizing the sale of "Kani" branded products and discontinuing the sale of "Cross Colours" and "So . . . L.A." branded footwear. In early 1996, the Company substantially increased its product offerings in, and marketing focus on, its Skechers women's and children's lines. The Company divested the "Karl Kani" license in August 1997. Substantially all of the Company's products are marketed under the Skechers name.

The Company's operating strategies are intended to continue to differentiate the Company from other participants in the footwear market and to provide controlled, well managed growth. These strategies include: (i) offering a breadth of innovative products, (ii) enhancing and broadening the Skechers brand name, (iii) maximizing the strategic value of retail distribution, (iv) controlling the growth of distribution channels and (v) leveraging the experience of the management team and the infrastructure the Company has established. During 1998, the Company produced over 900 different styles of footwear in a broad array of men's, women's and children's designs in an effort to diversify product risk and increase the potential market available to the Company. In keeping with its strategy, the Company has implemented an extensive marketing campaign to build the Skechers brand name and its association with casual and lifestyle footwear in general, as opposed to any single category of footwear. The Company uses its retail stores to strengthen its brand name image and showcase the range of its product offerings as well as to liquidate

close-outs, odd sizes and excess inventory more effectively. Management has implemented a strategy of controlling the growth of the distribution channels through which the Company's products are sold in order to protect the Skechers brand name, properly service customer accounts and better manage the growth of its business. Management believes it has the experience and has established the infrastructure of personnel, information systems and distribution capabilities to manage this growth.

In an effort to increase net sales and earnings, the Company has also developed five growth strategies. First, the Company plans to continue to expand its product offerings by developing new styles in existing categories as well as entering categories in which the Company does not currently produce styles. Second, the Company intends to increase penetration of its existing account base by (i) increasing the number of styles carried by existing accounts, (ii) increasing sell-through at the retail level for its existing accounts through increased marketing efforts and (iii) opening new locations with existing accounts. Third, the Company plans to open at least six new retail locations in the remainder of 1999. The Company also recently launched a mail-order catalog and Internet website. Fourth, the Company plans to increase international sales through distribution agreements with partners in countries in which the Company does not currently have distribution. The Company is also exploring selling directly to retailers in certain European countries in which the Company does not currently have distribution and selectively opening flagship retail stores internationally either on its own or through joint ventures. Fifth, the Company is exploring licensing the Skechers brand name for certain accessories and apparel in a manner and with such partners as management believes will increase earnings and maintain the integrity of the Skechers brand name.

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THE OFFERING

<TABLE>

<S>	<C>
Class A Common Stock offered by the Company.....	8,925,000 shares
Class A Common Stock offered by the Selling Stockholder.....	1,790,000 shares
Common Stock to be outstanding after the Offering:	
Class A Common Stock(1)(2)(3).....	10,715,000 shares
Class B Common Stock.....	26,024,155 shares
Use of Proceeds.....	Of the net proceeds, approximately \$66.5 million will be used to repay indebtedness, approximately \$7.6 million will be used to fund the Final 1998 Distribution, approximately \$3.4 million will be used to fund the Final Tax Distribution and approximately \$22.0 million will be used for the Final S Corporation Distribution. The remainder will be used for general corporate purposes. See "Use of Proceeds."
Proposed New York Stock Exchange Symbol for the Class A Common Stock.....	"SKX"

</TABLE>

(1) The holders of Class A Common Stock are entitled to one vote per share and holders of Class B Common Stock are entitled to ten votes per share.

(2) Excludes options to acquire 1,390,715 shares of Class A Common Stock outstanding as of December 31, 1998 at a per share exercise price of \$2.78. Options to purchase an aggregate of _____ shares of Class A Common Stock are expected to be granted to certain employees and non-employee directors of the Company on the effective date of this offering (the

"Offering") at an exercise price equal to the initial public offering price.
See "Management -- Stock Options."

(3) Does not include 1,607,250 shares of Class A Common Stock subject to a 30-day over-allotment option granted by the Greenberg Family Trust (the "Selling Stockholder"), of which Robert Greenberg, Chief Executive Officer and Chairman of the Board of the Company, is a trustee, together with his wife.

The Company's corporate headquarters are located at 228 Manhattan Beach Boulevard, Manhattan Beach, California 90266, and its telephone number is (310) 318-3100.

Skechers, Street Cleat and Wompers are registered trademarks of the Company. All other trademarks or tradenames referred to in this Prospectus are the property of their respective owners.

THE RECAPITALIZATION

Pursuant to a recapitalization to be effected prior to the consummation of the Offering (the "Recapitalization"), the Company will have authorized two new classes of common stock, Class A Common Stock and Class B Common Stock. The Class A Common Stock and the Class B Common Stock will have identical rights other than with respect to voting, conversion and transfer. The Class A Common Stock will be entitled to one vote per share while the Class B Common Stock will be entitled to ten votes per share on all matters submitted to a vote of stockholders. The shares of Class B Common Stock will be convertible at any time at the option of the holder into shares of Class A Common Stock on a share-for-share basis. In addition, shares of Class B Common Stock will be automatically converted into a like number of shares of Class A Common Stock upon any transfer to any person or entity which is not a Permitted Transferee (as defined in the Company's Certificate of Incorporation). After the Offering, the Greenberg Family Trust will be the beneficial owner of

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16,289,198 shares of Class B Common Stock, which will represent 62.6% of the Company's issued and outstanding Class B Common Stock. After the Offering, the holders of Class B Common Stock will represent in the aggregate approximately 70.8% of the equity and 96.0% of the voting power of the Company. As a result of such ownership, Robert Greenberg and his wife, as trustees of the Greenberg Family Trust, will be able to control the vote on substantially all matters submitted to a vote of the Company's stockholders, including the election of directors and the approval of extraordinary corporate transactions. See "Description of Capital Stock."

Except as otherwise specified, all information in this Prospectus (i) assumes no exercise of the Underwriters' over-allotment option (see "Underwriting"), (ii) excludes 5,215,154 shares of Class A Common Stock reserved for issuance under the Company's 1998 Stock Option, Deferred Stock and Restricted Stock Plan (the "Stock Option Plan") and 2,781,415 shares of Class A Common Stock reserved for issuance under the Company's 1998 Employee Stock Purchase Plan (the "1998 Purchase Plan") and (iii) gives effect to the Recapitalization and to the reincorporation of the Company in Delaware, which will be effected prior to the consummation of the Offering, whereby the existing

California corporation will be merged into a newly formed Delaware corporation and pursuant to which each outstanding share of common stock of the existing California corporation will be exchanged for approximately 13,907 shares of \$.001 par value Class B Common Stock of the new Delaware corporation. Unless the context indicates otherwise, all references herein to the Company refer to Skechers U.S.A., Inc., its predecessor entity, and its wholly-owned subsidiary.

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

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1994	1995	1996	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Net sales.....	\$90,755	\$110,649	\$115,410	\$183,827	\$372,680
Cost of sales.....	61,579	78,692	81,199	115,104	218,100
Gross profit.....	29,176	31,957	34,211	68,723	154,580
Royalty income, net.....	1,012	1,843	1,592	894	855
Operating expenses.....	30,188	33,800	35,803	69,617	155,435
Earnings from operations.....	3,506	1,800	5,125	15,636	33,991
Other income (expense):					
Interest.....	(2,461)	(3,676)	(3,231)	(4,186)	(8,631)
Other, net.....	18	214	61	(37)	(239)
Earnings (loss) before income taxes and extraordinary credit.....	(2,443)	(3,462)	(3,170)	(4,223)	(8,870)
Net earnings (loss).....	1,063	(1,662)	1,955	11,413	25,121
PRO FORMA OPERATIONS DATA(2):					
Earnings (loss) before income taxes and extraordinary credit.....	\$ 1,063	\$ (1,662)	\$ 1,955	\$ 11,413	\$ 25,121
Income taxes (benefit).....	425	(665)	782	4,565	10,048
Earnings (loss) before extraordinary credit, net.....	--	270(1)	--	--	--
Net earnings (loss).....	\$ 638	\$ (727)	\$ 1,173	\$ 6,848	\$ 15,073
Net earnings per share(3):					
Basic.....				\$.54	
Diluted.....				\$.50	
Weighted average shares(3):					
Basic.....				27,814	
Diluted.....				30,418	

</TABLE>

<TABLE>
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	AS OF DECEMBER 31, 1998		
	ACTUAL	PRO FORMA(4)	AS ADJUSTED(4)(5)
<S>	<C>	<C>	<C>

BALANCE SHEET DATA:

Working capital.....	\$ 23,106	\$ 19,548	\$ 91,428
Total assets.....	146,284	142,376	159,406
Total debt.....	70,933	70,933	4,366
Stockholders' equity.....	27,676	23,768	108,025

</TABLE>

- (1) Includes an extraordinary gain of \$443,000 net of state income taxes of \$7,000 (\$270,000 on a pro forma basis, net of \$180,000) resulting from the acceleration of the repayment of a note.
- (2) Reflects adjustments for Federal and state income taxes as if the Company had been taxed as a C Corporation, at the assumed rate of 40.0%, rather than as an S Corporation.
- (3) Weighted average diluted shares outstanding for the year ended December 31, 1998 include 1,068,630 shares of Class A Common Stock issuable upon exercise of stock options outstanding, after applying the treasury stock method based on an assumed initial public offering price of \$14.00 per share (the mid-point of the range). The weighted average diluted shares also give effect to the sale by the Company of those shares of Class A Common Stock necessary to fund the payment of the excess of (i) the sum of stockholder distributions during the previous 12-month period (during fiscal 1998 for the determination of shares outstanding for fiscal 1998) and distributions paid or declared thereafter until the consummation of the Offering over (ii) the S Corporation earnings in the previous 12-month period (for

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the year ended December 31, 1998), based on an assumed initial public offering price of \$14.00 per share (the mid-point of the range), net of estimated underwriting discounts See "Capitalization" and "Management -- Stock Options." For further information pertaining to the calculation of earnings per share, see Note 1 of Notes to Consolidated Financial Statements.

- (4) Pro forma balance sheet data gives effect to (i) a \$368,000 S Corporation distribution of assets made in January 1999 related to the "Cross Colours" trademark (the "January 1999 Distribution") and (ii) an anticipated \$3.5 million S Corporation distribution to be made in April 1999 consisting of the first installment of Federal income taxes payable on S Corporation earnings for 1998 (the "April Tax Distribution"). See "Prior S Corporation Status" and "Certain Transactions."
- (5) Pro forma as adjusted balance sheet data reflects (i) an anticipated \$7.6 million S Corporation distribution to be made with a portion of the proceeds of the Offering consisting of the final installment of Federal income taxes payable on S Corporation earnings for 1998 (the "Final 1998 Distribution"), (ii) an estimated \$3.4 million S Corporation distribution to be made with a portion of the proceeds of the Offering consisting of income taxes payable on S Corporation earnings from January 1, 1999 through the termination of the Company's S Corporation status (the "Final Tax Distribution"), (iii) an estimated \$22.0 million S Corporation distribution to be made with a portion of the proceeds of the Offering which is designed to constitute the substantial portion of the Company's remaining undistributed accumulated S Corporation earnings through the date of termination of the Company's S Corporation status (the "Final S Corporation Distribution"), (iv) the recording by the Company of \$2.4 million of deferred tax assets as if the Company had been a C Corporation since its inception and (v) the sale of the Class A Common Stock offered by the Company hereby based upon an assumed

initial public offering price of \$14.00 per share (the mid-point of the range) and the anticipated application of the net proceeds therefrom. See "Use of Proceeds," "Prior S Corporation Status" and "Capitalization."

RISK FACTORS

An investment in the shares of Class A Common Stock offered hereby involves a high degree of risk. Prospective investors should consider carefully the following risk factors, in addition to the other information presented in this Prospectus, before purchasing the shares of Class A Common Stock offered hereby. This Prospectus, in addition to historical information, contains forward-looking statements including, but not limited to, statements regarding the Company's plans to increase the number of retail locations and styles of footwear, the maintenance of customer accounts and expansion of business with such accounts, the successful implementation of the Company's strategies, future growth and growth rates and future increases in net sales, expenses, capital expenditures and net earnings. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "may," "will," "intends," "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties, and the Company's actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this Prospectus.

CHANGING CONSUMER DEMANDS AND FASHION TRENDS

The footwear industry is subject to rapidly changing consumer demands and fashion trends. The Company believes that its success depends in large part upon its ability to identify and interpret fashion trends and to anticipate and respond to such trends in a timely manner. There can be no assurance that the Company will be able to continue to meet changing consumer demands or to develop successful styles in the future. Decisions with respect to product designs often need to be made several months in advance of the time when consumer acceptance can be determined. As a result, the Company's failure to anticipate, identify or react appropriately to changes in styles and features could lead to, among other things, lower sales, excess inventories, higher inventory markdowns, impairment of the Company's brand image and lower gross margins as a result of allowances and discounts provided to retailers. Conversely, the failure by the Company to anticipate consumer demand could result in inventory shortages, which in turn could adversely affect the timing of shipments to customers, negatively impacting retailer and distributor relationships, and diminish brand loyalty. In addition, even if the Company reacts appropriately to changes in consumer preferences, consumers may identify the Company's brand image with an outmoded fashion or the association of the brand may be limited to styles or categories of footwear no longer in demand. There can be no assurance that the Company will successfully adapt to changing consumer demands and fashion trends, and any such failure to adapt could have a material adverse effect on the Company's business, financial condition and results of operations. Because of these risks, a number of companies in the footwear industry, and in the fashion and apparel industry, have experienced periods, which can be over several years, of rapid growth in revenues and earnings and thereafter periods of declining sales and losses which in some cases have resulted in the companies ceasing to do business. Until January 1992, several of the Company's executive officers and key employees were employed by L.A. Gear, Inc. ("L.A. Gear"), an athletic and casual footwear and apparel company, which experienced similar fluctuations. See "-- Ability to Manage Growth," "Business -- Product Design and Development" and "Management."

The Company intends to market additional lines of footwear in the future and, as is typical with new products, demand and market acceptance will be subject to uncertainty. Failure to regularly develop and introduce new products successfully could materially and adversely impact the Company's future growth and profitability. Achieving market acceptance for new products may require substantial marketing efforts. There can be no assurance that the Company's marketing efforts will be successful or that the Company will have the funds necessary to undertake sufficient efforts. See "Business -- Operating Strategies," "-- Growth Strategies" and "-- Sales."

RISKS RELATING TO STYLE CONCENTRATION

If any one style or group of similar styles of the Company's footwear were to represent a substantial portion of the Company's net sales, the Company could be exposed to risk should consumer demand for such style or group of styles decrease in subsequent periods. In the past, gross sales were adversely affected by decreased consumer demand for a style of footwear that previously represented a significant portion of the Company's sales. This style no longer represents a significant portion of the Company's sales. The Company attempts to hedge this risk by offering a broad range of products, and no style comprised over 5.0% of the Company's gross wholesale sales, net of discounts, for the year ended December 31, 1998. There can be no assurance that fluctuations in sales of any given style that represents a significant portion of the Company's net sales will not recur in the future and have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Footwear."

ABILITY TO MANAGE GROWTH

The Company has experienced rapid growth over the past three years and remains vulnerable to a variety of business risks generally associated with rapidly growing companies. The Company intends to continue to pursue an aggressive growth strategy through expanded marketing and promotion efforts, frequent introductions of products, broader lines of casual and performance footwear, expansion of retail stores and increased international market penetration, all of which may place a significant strain on the Company's financial, management and other resources. The Company's future performance will depend in part on its ability to manage change in both its domestic and international operations and will require the Company to attract, train, manage and retain management, sales, marketing and other key personnel. The Company's ability to manage its growth effectively will require it to continue to improve its operational and financial control systems, infrastructure and management information systems. For example, in early 1998, the Company moved its distribution center to a larger facility and currently intends to install a new material handling system at its second distribution facility in mid-2000 at a total cost of approximately \$8.5 million. There can be no assurance that these expansion efforts will be successfully completed or that they will not interfere with existing operations. The inability of the Company's management to manage growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Sales" and "Management."

ABILITY TO SUSTAIN PRIOR RATE OF GROWTH OR INCREASE NET SALES OR EARNINGS

The Company has realized rapid growth since inception, increasing net sales at a compound annual growth rate of 42.4% from \$90.8 million in 1994 to \$372.7 million in 1998. From 1997 to 1998, the Company experienced a 102.7% and 117.4% increase in net sales and earnings from operations, respectively. In the future, the Company's rate of growth will be dependent upon, among other things, the continued success of its efforts to expand its footwear offerings and distribution channels. The Company's profitability in any calendar quarter of any fiscal year depends upon, among other things, the timing and level of advertising and trade show expenditures and the timing and level of shipments of seasonal merchandise. There can be no assurance that the Company's rate of growth will not decline or that it will be profitable in any quarter of any succeeding fiscal year. In addition, the Company may have more difficulty maintaining its prior rate of growth to the extent it becomes larger. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview."

As part of its growth strategy, the Company seeks to further penetrate existing retail accounts, open its own retail stores in selected locations and increase its international operations, including in countries and territories where the Company has little distribution experience and where the Company's brand name is not yet well known. There can be no assurance that these and the

Company's other growth strategies will be successful. Success will depend on various factors, including the strength of the Company's brand name, market success of current and new products,

competitive conditions, the ability of the Company to manage increased net sales and stores and the availability of desirable locations. The Company's business also depends on general economic conditions and levels of consumer spending, which are currently high, and a decline in the economy or a recession could adversely impact the Company's business, financial condition and operating results since consumers often reduce spending on footwear and apparel in such times. There can be no assurance that the Company will be able to increase its sales to existing customers, open and operate new retail stores or increase its international operations on a profitable basis or that the Company's operating margins will improve, and there can be no assurance that the Company's growth strategies will be successful or that the Company's net sales or net earnings will increase as a result of the implementation of such strategies. In addition, the Company has significantly expanded its infrastructure and personnel to achieve economies of scale in anticipation of continued increases in net sales. Because these expenses are fixed, at least in the short term, operating results and margins would be adversely impacted if the Company does not achieve anticipated continued growth.

RISKS ASSOCIATED WITH FOREIGN OPERATIONS

Substantially all of the Company's net sales for the year ended December 31, 1998 were derived from sales of footwear manufactured for the Company outside of the United States. During such period, 96.2% of such manufactured products were produced in China. Additionally, the Company intends to increase its international sales efforts. Foreign manufacturing and sales are subject to a number of risks, including work stoppages, transportation delays, changing economic conditions, expropriation, political unrest, nationalization, the imposition of tariffs, import and export controls and other nontariff barriers, exposure to different legal standards (particularly with respect to intellectual property), burdens with complying with a variety of foreign laws and changes in domestic and foreign governmental policies, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company has not experienced material losses as a result of fluctuation in the value of foreign currencies. The Company's net sales and cost of goods sold are denominated in U.S. Dollars; consequently, the Company does not engage in currency hedging. Nevertheless, currency fluctuations could adversely affect the Company in the future. Also, the Company may be subjected to additional duties, significant monetary penalties, the seizure and the forfeiture of the products the Company is attempting to import or the loss of its import privileges if the Company or its suppliers are found to be in violation of U.S. laws and regulations applicable to the importation of the Company's products. Such violations may include (i) inadequate record keeping of its imported products, (ii) misstatements or errors as to the origin, quota category, classification, marketing or valuation of its imported products, (iii) fraudulent visas or (iv) labor violations under U.S. or foreign laws. There can be no assurance that the Company will not incur significant penalties (monetary or otherwise) if the United States Customs Service determines that these laws or regulations have been violated or that the Company failed to exercise reasonable care in its obligations to comply with these laws or regulations on an informed basis. Such factors could render the conduct of business in a particular country undesirable or impractical, which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company continues to monitor the political and economic stability of the Asian countries with which it conducts business. A substantial portion of the Company's footwear is manufactured in China. China currently enjoys "normal trade relations" status under United States tariff laws, which provides a favorable category of United States import duties. As a result of continuing concerns in the United States Congress regarding China's human rights policies, and disputes regarding Chinese trade policies, including the country's inadequate protection of United States intellectual property rights, there has been, and may be in the future, opposition to the extension of "normal trade relations" status for China. The loss of "normal trade relations" status for China would result in a substantial increase in the import duty of goods manufactured in China and imported into the United States and would result in

increased costs for the Company. Such increases in import duties and costs could have a material adverse effect on the Company's business, financial condition and results of operations.

Although the footwear sold by the Company is not currently subject to quotas in the United States, certain countries in which the Company's products are sold are subject to certain quotas and restrictions on foreign products which to date have not had a material adverse effect on the Company's business, financial condition and results of operations. However, such countries may alter or modify such quotas or restrictions. Countries in which the Company's products are manufactured may, from time to time, impose new or adjust quotas or other restrictions on exported products, and the United States may impose new duties, tariffs and other restrictions on imported products, any of which could have a material adverse effect on the Company's business, financial condition and results of operations and its ability to import products at the Company's current or increased quantity levels. Other restrictions on the importation of the Company's products are periodically considered by the U.S. Congress, and there can be no assurance that tariffs or duties on the Company's products may not be raised, resulting in higher costs to the Company, or that import quotas with respect to such products may not be imposed or made more restrictive.

DEPENDENCE ON CONTRACT MANUFACTURERS

The Company's footwear products are currently manufactured by independent contract manufacturers. For the year ended December 31, 1998, the top four manufacturers of the Company's manufactured products accounted for 15.4%, 14.2%, 12.1% and 10.4% of total purchases, respectively. Other than the foregoing, no one manufacturer accounted for 10.0% or more of the Company's total purchases for such period. The Company has no long-term contracts with its manufacturers and competes with other footwear companies for production facilities. Although the Company has established close working relationships with its principal manufacturers, the Company's future success will depend, in large part, on maintaining such relationships and developing new relationships. There can be no assurance that the Company will not experience difficulties with such manufacturers, including reduction in the availability of production capacity, failure to meet the Company's quality control standards, failure to meet production deadlines or increase in manufacturing costs. This could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. In the event that the Company's current manufacturers were for any reason to cease doing business with the Company, the Company could experience an interruption in the manufacture of its products, which could have a material adverse effect on the Company's business, financial condition and results of operations. Although the Company believes that it could find alternative sources to manufacture its products within 90 to 120 days after the date of disruption, establishment of new manufacturing relationships involves various uncertainties, including payment terms, costs of manufacturing, adequacy of manufacturing capacity, quality control and timeliness of delivery. The Company cannot predict whether it will be able to establish new manufacturing relationships, either in the countries in which it currently does business or in other countries in which it does not currently do business, that will be as favorable as those that now exist. Any significant delay in manufacture of the Company's footwear products or the inability to provide products consistent with the Company's standards, would have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Sourcing."

The Company requires its independent contract manufacturers to operate in compliance with applicable laws and regulations. The Company requires its manufacturers to certify that neither convict, forced, indentured labor (as defined under U.S. law) nor child labor (as defined by the manufacturer's country) was used in the production process, that compensation will be paid in accordance with local law and that the factory is in compliance with local safety regulations. Although the Company's operating guidelines promote ethical business practices and the Company's sourcing personnel periodically visit and

monitor the operations of its independent contract

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manufacturers, the Company does not control these vendors or their labor practices. The violation of labor or other laws by an independent contract manufacturer of the Company, or the divergence of an independent contract manufacturer's labor practices from those generally accepted as ethical in the United States, could result in adverse publicity for the Company and could have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON KEY CUSTOMERS AND SALES REPRESENTATIVES

During the year ended December 31, 1998, the Company's net sales to its five largest customers accounted for approximately 34.8% of total net sales. For the year ended December 31, 1998, The Venator Group represented 11.8% of the Company's net sales. Other than the foregoing, no one customer accounted for 10.0% or more of net sales for such period. Although the Company has long-term relationships with many of its customers, none of its customers has any contractual obligations to purchase the Company's products. There can be no assurance that the Company will be able to retain its existing major customers. In addition, the retail industry has periodically experienced consolidation, contractions and closings and any future consolidation, contractions or closings may result in loss of customers or uncollectability of accounts receivables of any major customer in excess of amounts insured by the Company. For example, in late 1998, The Venator Group announced the closure of its Kinney and Footquarters shoe stores and, in early 1999, Edison Brothers closed its Wild Pair shoe stores.

As of December 31, 1998, Famous Footwear represented 12.6% of trade receivables. Other than the foregoing, no one customer accounted for 10.0% or more of trade receivables for such period. The loss of or significant decrease in sales to any one of the Company's major customers or uncollectability of any accounts receivable of any major customer in excess of amounts insured could have a material adverse effect on its business, financial condition and results of operations. See "Business -- Sales."

In addition, for the year ended December 31, 1998, the top five salespersons accounted for 39.8% of the Company's net sales. One of these salespersons generated 17.9% of the Company's net sales for the year ended December 31, 1998. Other than the foregoing, no salesperson accounted for 10.0% or more of net sales for such period. The Company has entered into employment agreements with each of its salespersons. Although each salesperson has agreed under these agreements to keep certain information of the Company confidential, these salespersons are not subject to non-competition agreements with the Company. The loss of any of such salespersons may result in the disruption of service to such customers serviced by such salespersons, which could have a material adverse effect on the Company's business, financial condition and results of operations.

SEASONALITY; QUARTERLY FLUCTUATIONS

Sales of footwear products are somewhat seasonal in nature with the strongest sales generally occurring in the third and fourth quarters. In 1996 and 1997, 34.0% and 34.0% of net sales, respectively, and 94.7% and 52.5% of earnings from operations, respectively, were generated in the third quarter and 28.2% and 33.2% of net sales, respectively, and 56.1% and 35.1% of earnings from operations, respectively, were generated in the fourth quarter. However, in 1998, 38.4% of net sales and 72.0% of earnings from operations were generated in the third quarter and 22.0% of net sales and a loss from operations were generated in the fourth quarter. The Company's net sales in the fourth quarter of 1998 were adversely affected by the overall weakness in the retail footwear market. Also, operating expenses for the fourth quarter of 1998 were impacted by

certain discretionary expenses of approximately \$3.2 million and by significantly higher marketing expenses as a percentage of net sales than the Company typically incurs. The Company has experienced and expects to continue to experience variability in its net sales, operating results and net earnings on a quarterly basis. The Company's domestic customers generally assume responsibility for scheduling pickup and delivery of purchased products. Any delay in scheduling or pickup which is beyond the Company's control, could materially negatively impact the Company's net sales and results of

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operations for any given quarter. The Company believes the factors which influence this variability include (i) the timing of the Company's introduction of new footwear products, (ii) the level of consumer acceptance of new and existing products, (iii) general economic and industry conditions that affect consumer spending and retail purchasing, (iv) the timing of the placement, cancellation or pickup of customer orders, (v) increases in the number of employees and overhead to support growth, (vi) the timing of expenditures in anticipation of increased sales and customer delivery requirements, (vii) the number and timing of new Company retail store openings and (viii) actions by competitors. Due to these and other factors, the results for any particular quarter are not necessarily indicative of results for the full year. This cyclicity and any related fluctuation in consumer demand could have a material adverse effect on the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Quarterly Results and Seasonality" and "Business -- Sales."

EXPOSURE TO FLUCTUATIONS IN ECONOMIC CONDITIONS

The footwear industry in general is dependent on the economic environment and levels of consumer spending which affect not only the ultimate consumer, but also retailers, the Company's primary direct customers. Purchases of footwear tend to decline in periods of recession or uncertainty regarding future economic prospects, when consumer spending, particularly on discretionary items, declines. As a result, the Company's operating results may be adversely affected by downward trends in the economy or the occurrence of events that adversely affect the economy in general. See "Business -- Industry Overview."

INTENSE COMPETITION IN THE FOOTWEAR INDUSTRY

Competition in the footwear industry is intense. Although the Company believes that it does not compete directly with any single company with respect to its entire range of products, the Company's products compete with other branded products within their product category as well as with private label products sold by retailers, including some of the Company's customers. The Company's utility footwear and casual shoes compete with footwear offered by companies such as The Timberland Company, Dr. Martens, Kenneth Cole Productions, Steven Madden, Ltd. and Wolverine World Wide, Inc. The Company's athletic shoes compete with brands of athletic footwear offered by companies such as Nike, Inc., Reebok International Ltd., adidas-Salomon AG and New Balance. The Company's children's shoes compete with brands of children's footwear offered by companies such as The Stride Rite Corporation. In varying degrees, depending on the product category involved, the Company competes on the basis of style, price, quality, comfort and brand name prestige and recognition, among other considerations. These and other competitors pose challenges to the Company's market share in its major domestic markets and may make it more difficult to establish the Company in Europe, Asia and other international regions. The Company also competes 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 the Company's competitors are larger, have achieved greater recognition for their brand names, have captured greater market share and/or have substantially greater financial, distribution, marketing and other resources than the Company. There can be no assurance that the Company will be able to compete successfully against present or future competitors or that competitive pressures faced by the Company will not have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Competition."

RISKS RELATING TO ADVANCE PURCHASES OF PRODUCTS

To minimize purchasing costs, the time necessary to fill customer orders and the risk of non-delivery, the Company places orders for certain of its products with its manufacturers prior to the time the Company has received all of its customers' orders and maintains an inventory of certain

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products that it anticipates will be in greater demand. There can be no assurance, however, that the Company will be able to sell the products it has ordered from manufacturers or that it has in its 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 the Company's brand image and could have a material adverse effect on the Company's business, financial condition and results of operations. As of December 31, 1998, the Company had approximately \$53.0 million of open purchase orders with its manufacturers, and \$65.4 million of inventory at cost, relating to order backlog of \$74.9 million.

ADDITIONAL CAPITAL REQUIREMENTS

The Company expects that anticipated cash flow from operations, available borrowings under the Company's revolving line of credit, after the repayment of indebtedness described under "Use of Proceeds," cash on hand and its financing arrangements will be sufficient to provide the Company with the liquidity necessary to fund its anticipated working capital and capital requirements through fiscal 2000. However, in connection with its growth strategy, the Company will incur significant working capital requirements and capital expenditures. The Company's future capital requirements will depend on many factors, including, but not limited to, the levels at which the Company maintains inventory, the market acceptance of the Company's footwear, the levels of promotion and advertising required to promote its footwear, the extent to which the Company invests in new product design and improvements to its existing product design and the number and timing of new store openings. To the extent that available funds are insufficient to fund the Company's future activities, the Company may need to raise additional funds through public or private financing. No assurance can be given that additional financing will be available or that, if available, it can be obtained on terms favorable to the Company. Failure to obtain such financing could delay or prevent the Company's planned expansion, which could adversely affect the Company's business, financial condition and results of operations. In addition, if additional capital is raised through the sale of additional equity or convertible securities, dilution to the Company's stockholders could occur. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

ABILITY TO PROTECT INTELLECTUAL PROPERTY RIGHTS

The Company relies on trademark, copyright and trade secret protection, patents, non-disclosure agreements and licensing arrangements to establish, protect and enforce intellectual property rights in its products. In particular, the Company believes that its future success will depend in significant part on the Company's ability to maintain and protect the Skechers trademark. The Company vigorously defends its trademarks against infringement. Despite the Company's efforts to safeguard and maintain its intellectual property rights, there can be no assurance that the Company will be successful in this regard. There can be no assurance that third parties will not assert intellectual property claims against the Company in the future. Furthermore, there can be no assurance that the Company's trademarks, products and promotional materials do not or will not violate the intellectual property rights of others, that its intellectual property would be upheld if challenged or that the Company would, in such an event, not be prevented from using its trademarks and other intellectual property. Such claims, if proved, could materially and adversely affect the Company's 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 the Company's business, financial condition and results of operations. The Company has sued and has been sued by third parties in connection with certain matters regarding its trademarks, none of which has materially impaired the Company's ability to utilize its trademarks.

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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 the Company continues to implement protective measures and intends to defend its intellectual property rights vigorously, there can be no assurance that these efforts will be successful or that the costs associated with protecting its rights in certain jurisdictions will not be prohibitive.

From time to time, the Company discovers products in the marketplace that are counterfeit reproductions of the Company's products or that otherwise infringe upon intellectual property rights held by the Company. There can be no assurance that actions taken by the Company to establish and protect its intellectual property rights will be adequate to prevent imitation of its products by others or to prevent others from seeking to block sales of the Company's products as violating intellectual property rights. If the Company is unsuccessful in challenging a third party's products on the basis of infringement of its intellectual property rights, continued sales of such product by that or any other third party could adversely impact the Skechers trademark, result in the shift of consumer preferences away from the Company and generally have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Intellectual Property Rights."

DEPENDENCE ON KEY PERSONNEL

The Company's success depends to a large extent upon the expertise and continuing contributions of Robert Greenberg, Chairman of the Board and Chief Executive Officer, Michael Greenberg, President, and David Weinberg, Executive Vice President and Chief Financial Officer. Upon the consummation of the Offering, each of these officers will enter into three-year employment contracts with the Company. These agreements will not have non-competition provisions upon termination of employment. See "Management -- Executive Compensation -- Employment Agreements." The loss of the services of any of these individuals or any other key employee could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's future success also depends on its ability to identify, attract and retain additional qualified personnel. The competition for such employees is intense, and there can be no assurance that the Company will be successful in identifying, attracting and retaining such personnel. The Company maintains \$5.0 million of "key man" life insurance on the life of Robert Greenberg. The loss of key employees or the inability to hire or retain qualified personnel in the future could have a material adverse effect on the Company's business, financial condition and results of operations. See "Management -- Directors, Executive Officers and Key Employees."

CONTROL OF THE COMPANY BY PRINCIPAL STOCKHOLDER; DISPARATE VOTING RIGHTS

After the Offering, Robert Greenberg, Chairman of the Board and Chief Executive Officer, will beneficially own 62.6% of the outstanding Class B Common Stock of the Company (or approximately 60.1% of the outstanding Class B Common Stock if the Underwriters' over-allotment option is exercised in full). The holders of Class A Common Stock and Class B Common Stock have identical rights except that holders of Class A Common Stock are 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 the stockholders. As a result, Mr. Greenberg will hold approximately 60.1% of the aggregate number of votes eligible to be cast by the Company's stockholders (or approximately 57.2% if the Underwriters' over-allotment option is exercised in full). Therefore, Mr. Greenberg will be able to control substantially all matters requiring approval by the stockholders of the Company, including the election of directors and the approval of mergers

or other business combination transactions, and will also have control over the management and affairs of the Company. As a result of such control, certain transactions may not be possible without the approval of Mr. Greenberg, including proxy contests, tender offers, open market purchase programs or other transactions that could give stockholders of the Company the opportunity to realize a premium over the then-prevailing market prices for their shares of Class A Common Stock. The differential in the voting rights could adversely affect the value of the Class A Common Stock to the extent that investors or any potential future

purchaser of the Company view the superior voting rights of the Class B Common Stock to have value. See "Management," "Principal and Selling Stockholders" and "Description of Capital Stock."

ANTI-TAKEOVER PROVISIONS

The Company is subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law ("DGCL"). In general, Section 203 prevents an "interested stockholder" (defined generally as a person owning more than 15.0% or more of the Company's outstanding voting stock) from engaging in a "business combination" with the Company for three years following the date that person became an interested stockholder unless the business combination is approved in a prescribed manner. This statute could make it more difficult for a third party to acquire control of the Company. See "Description of Capital Stock -- Section 203 of the Delaware General Corporation Law.

The Board of Directors has the authority to issue up to 10,000,000 shares of Preferred Stock and to determine the rights, preferences, privileges and restrictions of such shares without any further vote or action by the stockholders. Although at present the Company has no plans to issue any shares of Preferred Stock, Preferred Stock could be issued with voting, liquidation, dividend and other rights superior to the rights of the Common Stock. The issuance of Preferred Stock under certain circumstances could have the effect of delaying or preventing a change in control of the Company. See "Description of Capital Stock."

Mr. Greenberg's substantial beneficial ownership position, together with the authorization of Preferred Stock, the disparate voting rights between the Class A and Class B Common Stock, the classification of the Board of Directors and the lack of cumulative voting in the Company's Certificate of Incorporation and Bylaws, may have the effect of delaying, deferring or preventing a change in control of the Company, may discourage bids for the Company's 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 the Class A Common Stock. See "Principal and Selling Stockholders" and "Description of Capital Stock."

NO ASSURANCE OF ACTIVE TRADING MARKET FOR CLASS A COMMON STOCK AND POSSIBLE VOLATILITY OF STOCK PRICE

Prior to the Offering, there has been no public market for the Company's Class A Common Stock. Although the Company intends to apply for listing of the Class A Common Stock on the New York Stock Exchange, there can be no assurance that an active public trading market for the Class A Common Stock will develop after the Offering or that, if developed, it will be sustained. The public offering price of the Class A Common Stock offered hereby will be determined by negotiations between the Company, the Selling Stockholder and the Representatives of the Underwriters and may not be indicative of the price at which the Class A Common Stock will trade after the Offering. Consequently, there can be no assurance that the market price for the Class A Common Stock will not fall below the initial public offering price. The market price for shares of the Class A Common Stock may be volatile and may fluctuate based upon a number of factors, including, without limitation, business performance, news announcements, quarterly fluctuations in the Company's financial results,

changes in earnings estimates or recommendations by analysts or changes in general economic and market conditions. See "Underwriting."

SHARES ELIGIBLE FOR FUTURE SALE; REGISTRATION RIGHTS

The sales of substantial amounts of the Company's Class A Common Stock in the public market or the prospect of such sales could materially and adversely affect the market price of the Class A Common Stock. Upon completion of the Offering, the Company will have outstanding 10,715,000 shares of Class A Common Stock. In addition, the Company will have outstanding 26,024,155 shares of Class B Common Stock, all of which will be convertible into Class A Common Stock on a share-for-share basis at the election of the holder or upon transfer or disposition to

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persons who are not Permitted Transferees (as defined in the Company's Certificate of Incorporation). The 10,715,000 shares of Class A Common Stock offered hereby will be immediately eligible for sale in the public market without restriction beginning on the date of this Prospectus. The 26,024,155 shares of Class B Common Stock are restricted in nature and are saleable pursuant to Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"). All executive officers, directors, stockholders and optionholders of the Company (including the Selling Stockholder) have agreed that they will not, without the prior written consent of BT Alex. Brown Incorporated on behalf of the Underwriters (which consent may be withheld in its sole discretion) and subject to certain limited exceptions, offer, pledge, sell, contract to sell, sell any option or contract to purchase, sell short, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock, or any securities convertible into or exercisable or exchangeable for Common Stock, or enter into any swap or similar agreement that transfers in whole or in part, any of the economic consequences of ownership of the Common Stock, for a period commencing on the date of this Prospectus and continuing to a date 180 days after such date; provided, however, that such restrictions do not apply to shares of Class A Common Stock sold or purchased in the Offering or to shares of Class A Common Stock purchased in the open market following the Offering. BT Alex. Brown Incorporated, on behalf of the Underwriters, may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock-up agreements. Upon consummation of the Offering, Robert Greenberg, Chairman of the Board and Chief Executive Officer, and Michael Greenberg, President, will beneficially own an aggregate of 19,070,613 shares of Class B Common Stock for which they have received certain registration rights to sell such shares of Class A Common Stock issuable upon conversion of their shares of Class B Common Stock in the public market. The Company also intends to register under the Securities Act shares of Class A Common Stock reserved for issuance pursuant to the Stock Option Plan and the 1998 Purchase Plan. See "Shares Eligible for Future Sale" and "Underwriting."

YEAR 2000 COMPLIANCE

The Company is assessing the internal readiness of its computer systems for handling the year 2000 ("Y2K") issue. Although the Company is not aware of any material operational issues associated with preparing its internal systems for the Y2K, there can be no assurance that there will not be a delay in the implementation of the necessary systems and changes to address the Y2K issues. The Company's inability to implement such systems and changes in a timely manner could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, even if the internal systems of the Company are not materially affected by the Y2K issue, the Company could be affected by disruptions in the operation of the enterprises with which the Company interacts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000 Compliance."

IMMEDIATE AND SUBSTANTIAL DILUTION

The anticipated initial public offering price is substantially higher than the book value per outstanding share of the Class A Common Stock. Purchasers of the Class A Common Stock will experience immediate and substantial dilution in net tangible book value of \$11.14 per share (based upon an assumed initial public offering price of \$14.00 per share) from the assumed initial public offering price per share of Class A Common Stock. Moreover, to the extent outstanding options to purchase Class A Common Stock are exercised in the future, there will be further dilution. See "Dilution."

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USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of the 8,925,000 shares of Class A Common Stock offered by the Company (after deducting the estimated underwriting discounts and commissions and estimated Offering expenses payable by the Company) are estimated to be \$114.2 million. The Company intends to apply the net proceeds from the Offering (i) to repay all indebtedness owed under its revolving line of credit (which had an outstanding balance of \$54.3 million as of December 31, 1998), (ii) to repay approximately \$12.2 million owed under two term notes (a \$10.0 million subordinated note (the "Subordinated Note") and a \$2.2 million unsubordinated note (the "Unsubordinated Note")), each owing to the Greenberg Family Trust, (iii) to make the Final 1998 Distribution, which consists of the final installment of Federal income taxes payable on S Corporation earnings for 1998 and is anticipated to be \$7.6 million, (iv) to make the Final Tax Distribution, which consists of income taxes payable on S Corporation earnings from January 1, 1999 through the date of termination of the Company's S Corporation status and is anticipated to be \$3.4 million and (v) to make the Final S Corporation Distribution, which is designed to constitute the substantial portion of the Company's remaining undistributed accumulated S Corporation earnings through the date of termination of the Company's S Corporation status and is anticipated to be \$22.0 million. The remainder of the net proceeds will be used for other general corporate purposes, including working capital.

The revolving line of credit to be repaid is part of a credit facility provided by Heller Financial, Inc. The revolving line of credit provides for borrowings of up to \$120.0 million and bears interest at the Company's option at either the prime rate (7.75% at December 31, 1998) plus 25 basis points or at Libor (5.07% at December 31, 1998) plus 2.75%. Approximately \$54.3 million was outstanding under the revolving line of credit as of December 31, 1998. By repaying this indebtedness, the Company expects to have additional flexibility and liquidity to pursue its growth strategies. The Subordinated Note and Unsubordinated Note each bear interest at the prime rate (7.75% at December 31, 1998) and are due on demand. The Greenberg Family Trust has agreed not to call the Subordinated Note prior to January 2000. The proceeds from the issuance of these notes were used to repay a term note in the principal amount of \$13.3 million owed to Heller Financial, Inc. See "Certain Transactions."

The Company will not receive any proceeds from the sale of shares of Class A Common Stock by the Selling Stockholder.

PRIOR S CORPORATION STATUS

In May 1992, the Company elected to be treated for Federal and state income tax purposes as an S Corporation under Subchapter S of the Internal Revenue Code of 1986, as amended (the "Code"), and comparable state laws. As a result, earnings of the Company, since such initial election, have been included in the taxable income of the Company's stockholders for Federal and state income tax purposes, and the Company has not been subject to income tax on such earnings, other than franchise and net worth taxes. Prior to the closing of the Offering, the Company will terminate its S Corporation status, and the Company will be treated for Federal and state income tax purposes as a corporation under

Subchapter C of the Code and, as a result, will become subject to state and Federal income taxes.

By reason of the Company's treatment as an S Corporation for Federal and state income tax purposes, the Company, since inception, has provided to its stockholders funds for the payment of income taxes on the earnings of the Company. The Company declared distributions consisting of amounts attributable to payment of such taxes of \$112,000, \$3.2 million and \$7.9 million in 1996, 1997 and 1998, respectively. In January 1999, the Company made a \$368,000 S Corporation distribution of assets related to the "Cross Colours" trademark (the "January 1999 Distribution"). See "Certain Transactions." In April 1999, the Company anticipates making the first installment of Federal income taxes payable on S Corporation earnings for 1998 (the "April Tax Distribution").

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Also, the Company will use a portion of the proceeds of the Offering to make the final installment of Federal income taxes payable on S Corporation earnings for 1998 (the "Final 1998 Distribution"). The amount of the April Tax Distribution is estimated to be approximately \$3.5 million and the amount of the Final 1998 Distribution is estimated to be approximately \$7.6 million.

Upon the termination of the Company's S Corporation status, the Company will declare (i) the Final Tax Distribution consisting of income taxes payable on S Corporation earnings from January 1, 1999 through the date of termination of the Company's S Corporation status, and (ii) the Final S Corporation Distribution in an amount designed to constitute the substantial portion of the Company's remaining undistributed accumulated S Corporation earnings through the date of termination of the Company's S Corporation status. The Company estimates that the amount of the Final Tax Distribution will be approximately \$3.4 million (the "Final Tax Distribution") and the amount of the Final S Corporation Distribution will be approximately \$22.0 million (the "Final S Corporation Distribution"); such amounts will be paid with a portion of the net proceeds of the Offering. See "Use of Proceeds." Purchasers of shares of Class A Common Stock in the Offering will not receive any portion of the April Tax Distribution, the Final 1998 Distribution, the Final Tax Distribution or the Final S Corporation Distribution. On and after the date of such termination, the Company will no longer be treated as an S Corporation and, accordingly, will be fully subject to Federal and state income taxes. All pro forma income taxes reflect adjustments for Federal and state income taxes as if the Company had been taxed as a C Corporation rather than an S Corporation.

In connection with the Offering and the termination of the Company's S Corporation tax status, the Company will enter into a tax indemnification agreement with each of its stockholders. The agreement will provide that the Company will indemnify and hold harmless each of the stockholders for Federal, state, local or foreign income tax liabilities, and costs relating thereto, resulting from any adjustment to the Company's taxable income that is the result of an increase in or change in character of, the Company's income during the period it was treated as an S Corporation up to the benefit received by the Company in connection with such adjustments. The agreements will also provide that if there is a determination that the Company was not an S Corporation prior to the Offering, the stockholders will indemnify the Company for the additional tax liability arising as a result of such determination up to the amount of the prior distributions to the stockholders less the taxes payable with respect to such distributions.

DIVIDEND POLICY

The Company anticipates that after payment of the April Tax Distribution in April 1999 and the Final 1998 Distribution, to be paid with a portion of the net proceeds of the Offering to the Company, and after the payment of the Final Tax Distribution and the Final S Corporation Distribution in connection with the termination of the S Corporation status of the Company, all earnings will be

retained for the foreseeable future for use in the operations of the business. Purchasers of shares of Class A Common Stock in the Offering will not receive any portion of the April Tax Distribution, the Final 1998 Distribution, the Final Tax Distribution or the Final S Corporation Distribution. Any future determination as to the declaration or payment of dividends will be at the discretion of the Company's Board of Directors and will depend upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Board of Directors. The Company's credit facility prohibits the payment of dividends by the Company if the Company is in default of any provisions of the credit facility. For certain information regarding S Corporation distributions declared by the Company in 1996, 1997 and 1998 and the January 1999 Distribution, the April Tax Distribution, the Final 1998 Distribution, the Final Tax Distribution and the Final S Corporation Distribution, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

CAPITALIZATION

The following table sets forth the capitalization of the Company after giving effect to the Recapitalization (i) on an actual basis as of December 31, 1998 (when the Company was an S Corporation), (ii) on a pro forma basis to reflect the January 1999 Distribution of \$368,000 of assets and the April Tax Distribution estimated to be \$3.5 million and (iii) on a pro forma basis as adjusted to reflect (A) the Final 1998 Distribution, estimated to be \$7.6 million, the Final Tax Distribution, estimated to be \$3.4 million, and the Final S Corporation Distribution, estimated to be \$22.0 million, to be made in connection with the termination of the Company's S Corporation status (see "Prior S Corporation Status"), (B) the recording by the Company of \$2.4 million of deferred tax assets as if the Company were treated as a C Corporation since its inception and (C) the issuance and sale of the shares of Class A Common Stock offered by the Company at an assumed initial public offering price of \$14.00 per share (the mid-point of the range), after deducting the estimated underwriting discounts and commissions and estimated Offering expenses payable by the Company, and the anticipated application of the estimated net proceeds therefrom. This table should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included elsewhere in this Prospectus.

<TABLE>
<CAPTION>

	AS OF DECEMBER 31, 1998		

	PRO FORMA,		
	ACTUAL	PRO FORMA	AS ADJUSTED(4)
	-----	-----	-----
	(IN THOUSANDS, EXCEPT SHARE DATA)		
<S>	<C>	<C>	<C>
Short-term debt(1).....	\$57,383	\$57,383	\$ 816
	=====	=====	=====
Long-term debt:			
Notes payable to stockholder.....	\$10,000	\$10,000	\$ --
Other long-term debt.....	3,550	3,550	3,550
Stockholders' equity:			
Preferred Stock, \$.001 par value; 10,000,000 shares authorized; none issued and outstanding actual, pro forma and pro forma as adjusted.....	--	--	--
Class A Common Stock, \$.001 par value; 100,000,000 shares authorized; none issued and outstanding actual and pro forma; 10,715,000 shares issued and outstanding pro forma as adjusted(2).....	--	--	11
Class B Common Stock, \$.001 par value; 60,000,000 shares authorized; 27,814,155 shares issued and outstanding actual and pro forma; 26,024,155 shares issued and outstanding pro forma as adjusted.....	2	2	26
Additional paid-in capital(3).....	--	--	114,829
Retained earnings (accumulated deficit).....	27,674	23,766	(6,841)

Total stockholders' equity.....	27,676	23,768	108,025
Total capitalization.....	\$44,226	\$37,318	\$111,575

</TABLE>

- (1) Includes the current installments of other long-term debt and the Unsubordinated Note payable to stockholder.
- (2) Excludes options to acquire 1,390,715 shares of Class A Common Stock outstanding as of December 31, 1998, at a per share exercise price of \$2.78. Options to purchase an aggregate of _____ shares of Class A Common Stock are expected to be granted to certain employees and non-employee directors of the Company at the effective date of the Offering at a per share exercise price equal to the initial public offering price. See "Management -- Stock Options."
- (3) In 1998, the Company charged to expense \$660,000 of costs related to the Offering.
- (4) Reflects the conversion of 1,790,000 shares of Class B Common Stock into 1,790,000 shares of Class A Common Stock as a result of the anticipated sale of stock by the Selling Stockholder pursuant to the Offering.

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DILUTION

The net tangible book value of the Company's Common Stock at December 31, 1998 was approximately \$26.7 million or \$0.96 per share. The pro forma net tangible book value of the Company's Common Stock at December 31, 1998 was approximately \$(9.9) million or \$(0.35) per share. Pro forma net tangible book value per share represents total tangible assets reduced by the amount of total liabilities, divided by the number of shares of Common Stock outstanding, after giving effect to (i) the April Tax Distribution estimated to be \$3.5 million which will be paid in April 1999 and (ii) the Final 1998 Distribution estimated to be \$7.6 million, the Final Tax Distribution estimated to be \$3.4 million and the Final S Corporation Distribution estimated to be \$22.0 million and payment of each thereof with a portion of the net proceeds of the Offering (see "Prior S Corporation Status"). After giving effect to the sale by the Company of the shares of Class A Common Stock offered by the Company hereby at an assumed initial public offering price of \$14.00 per share (the mid-point of the range), after deducting the estimated underwriting discounts and commissions and estimated Offering expenses, the pro forma as adjusted net tangible book value of the Company at December 31, 1998 would have been \$105.0 million or \$2.86 per share of Common Stock. This represents an immediate increase in pro forma net tangible book value of \$3.21 per share to existing stockholders and an immediate and substantial dilution of \$11.14 per share to new investors purchasing shares in the Offering. The following table illustrates this per share dilution:

<TABLE>

Assumed initial public offering price per share.....		\$ 14.00
Pro forma net tangible book value per share as of December 31, 1998.....	\$ (0.35)	
Increase per share attributable to new investors.....	3.21	
Pro forma as adjusted net tangible book value per share after the Offering.....		2.86

Dilution per share to new investors..... \$ 11.14

=====

</TABLE>

The following table summarizes, on a pro forma basis as of December 31, 1998, after giving effect to the adjustments set forth above, the number of shares of Class A Common Stock purchased from the Company, the total consideration paid to the Company and the average price per share of Common Stock paid by the existing stockholders and by the new investors in the Offering:

<TABLE>
<CAPTION>

	SHARES		TOTAL		AVERAGE PRICE
	PURCHASED		CONSIDERATION		
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
	-----		-----		-----
<S>	<C>	<C>	<C>	<C>	<C>
Existing stockholders(1)....	27,814,155	75.7%	\$ 2,000	0.0%	\$ 0.00
New investors(1).....	8,925,000	24.3	124,950,000	100.0	\$14.00
	-----		-----		
Total.....	36,739,155	100.0%	\$124,952,000	100.0%	
	=====		=====		

</TABLE>

(1) Sales by the Selling Stockholder in the Offering will reduce the number of shares held by existing stockholders to 26,024,155, or 70.8% of the total number of shares of Common Stock outstanding after the Offering, and will increase the number of shares held by new investors to 10,715,000 shares, or 29.2% of the total number of shares of Common Stock outstanding after the Offering. See "Principal and Selling Stockholders."

The above tables exclude 1,390,715 shares of Class A Common Stock issuable upon the exercise of outstanding stock options at an exercise price of \$2.78. To the extent outstanding options are exercised, new investors will experience further dilution. See "Management -- Stock Options -- 1998 Stock Option Plan," "-- 1998 Employee Stock Purchase Plan" and Note 6 of Notes to Consolidated Financial Statements.

SELECTED FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE DATA)

The selected data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" for, and as of the end of, each of the years in the five-year period ended December 31, 1998, are derived from the Consolidated Financial Statements of Skechers U.S.A., Inc., which consolidated financial statements have been audited by KPMG LLP, independent certified public accountants. The Consolidated Financial Statements as of December 31, 1997 and 1998, and for each of the years in the three-year period ended December 31, 1998, and the report thereon, are included elsewhere in this Prospectus. Pro Forma Operations Data is unaudited.

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31,

	1994	1995	1996	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Net sales.....	\$90,755	\$110,649	\$115,410	\$183,827	\$372,680
Cost of sales.....	61,579	78,692	81,199	115,104	218,100
Gross profit.....	29,176	31,957	34,211	68,723	154,580
Royalty income, net.....	1,012	1,843	1,592	894	855
	30,188	33,800	35,803	69,617	155,435
Operating expenses:					
Selling.....	10,872	12,150	11,739	21,584	49,983
General and administrative.....	15,810	19,850	18,939	32,397	71,461
	26,682	32,000	30,678(1)	53,981	121,444
Earnings from operations.....	3,506	1,800	5,125	15,636	33,991
Other income (expense):					
Interest.....	(2,461)	(3,676)	(3,231)	(4,186)	(8,631)
Other, net.....	18	214	61	(37)	(239)
	(2,443)	(3,462)	(3,170)	(4,223)	(8,870)
Earnings (loss) before income taxes and extraordinary credit.....	1,063	(1,662)	1,955	11,413	25,121
State income taxes -- all current.....	54	3	45	390	650
Earnings (loss) before extraordinary credit.....	1,009	(1,665)	1,910	11,023	24,471
Extraordinary credit, net of state income taxes.....	--	--	443(1)	--	--
Net earnings (loss).....	\$ 1,009	\$(1,222)	\$ 1,910	\$ 11,023	\$ 24,471
PRO FORMA OPERATIONS DATA(2):					
Earnings (loss) before income taxes and extraordinary credit.....	\$ 1,063	\$(1,662)	\$ 1,955	\$ 11,413	\$ 25,121
Income taxes (benefit).....	425	(665)	782	4,565	10,048
Earnings (loss) before extraordinary credit.....	638	(997)	1,173	6,848	15,073
Extraordinary credit, net of state income taxes.....	--	--	270(1)	--	--
Net earnings (loss).....	\$ 638	\$(727)	\$ 1,173	\$ 6,848	\$ 15,073
Net earnings per share(3):					
Basic.....			\$ 0.54		
Diluted.....			\$ 0.50		
Weighted average shares(3):					
Basic.....			27,814		
Diluted.....			30,418		

</TABLE>

<TABLE>
<CAPTION>

AS OF DECEMBER 31,

	1994	1995	1996	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:					
Working capital.....	\$ 8,930	\$ 8,155	\$ 11,987	\$ 17,081	\$ 23,106
Total assets.....	43,575	47,701	42,151	90,881	146,284
Total debt.....	28,180	31,748	25,661	39,062	70,933

Stockholders' equity..... 2,330 938 3,336 11,125 27,676
</TABLE>

-
- (1) Includes an extraordinary gain of \$443,000 net of state income taxes of \$7,000 (\$270,000 on a pro forma basis, net of \$180,000) resulting from the acceleration of the repayment of a note.
- (2) Reflects adjustments for Federal and state income taxes as if the Company had been taxed as a C Corporation, at the assumed rate of 40.0%, rather than as an S Corporation.

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- (3) Weighted average diluted shares outstanding for the year ended December 31, 1998 include 1,068,630 shares of Class A Common Stock issuable upon exercise of stock options outstanding, after applying the treasury stock method based on an assumed initial public offering price of \$14.00 per share (the mid-point of the range). The weighted average diluted shares also give effect to the sale by the Company of those shares of Class A Common Stock necessary to fund the payment of the excess of (i) the sum of stockholder distributions during the previous 12-month period (during fiscal 1998 for the determination of shares outstanding for fiscal 1998), and distributions paid or declared thereafter until the consummation of the Offering over (ii) the S Corporation earnings in the previous 12-month period (for the year ended December 31, 1998), based on an assumed initial public offering price of \$14.00 per share (the mid-point of the range), net of estimated underwriting discounts. See "Capitalization" and "Management -- Stock Options." For further information pertaining to the calculation of earnings per share, see Note 1 of Notes to Consolidated Financial Statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto appearing elsewhere herein. This section contains certain forward-looking statements that involve risks and uncertainties including, but not limited to, information with regard to the Company's plans to increase the number of retail locations and styles of footwear, the maintenance of customer accounts and expansion of business with such accounts, the successful implementation of the Company's strategies, future growth and growth rates, and future increases in net sales, expenses, capital expenditures and net earnings. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "may," "will," "intends," "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties, and the Company's actual results may differ materially from the results discussed in the forward-looking statements as a result of certain factors set forth in "Risk Factors" and elsewhere in this Prospectus.

OVERVIEW

The Company designs and markets branded contemporary casual, active, rugged and lifestyle footwear for men, women and children. The Company sells its products to department stores such as Nordstrom, Macy's, Dillard's, Robinson's-May and JC Penney, and specialty retailers such as Genesco's Journeys and Jarman chains, The Venator Group's Foot Locker and Lady Foot Locker chains, Pacific Sunwear and Footaction U.S.A. The Company's marketing focus is to maintain and enhance recognition of the Skechers brand name as a casual, active, youthful, lifestyle brand that stands for quality, comfort and design innovation. Although the Company spent 18.3% of net sales on marketing in the

fourth quarter of 1998, which raised total marketing expenditures for the year to 11.3% of net sales, the Company typically endeavors to spend between 8.0% and 10.0% of net sales in the marketing of Skechers footwear through an integrated effort of advertising, promotions, public relations, trade shows and other marketing efforts.

The Company was founded in 1992 as a distributor of Dr. Martens footwear. The Company began designing and marketing men's footwear under the Skechers brand name and other brand names including "Cross Colours," "Karl Kani" and "So . . . L.A." in 1993. Shortly after launching these branded footwear lines, the Company discontinued distributing Dr. Martens footwear. In 1995, the Company began to shift its focus to the Skechers brand name by de-emphasizing the sale of "Kani" branded products and discontinuing the sale of "Cross Colours" and "So . . . L.A." branded footwear. In early 1996, the Company substantially increased its product offerings in and marketing focus on its Skechers women's and children's lines. The Company divested the "Karl Kani" license in August 1997. Substantially all of the Company's products are marketed under the Skechers name.

Management believes the Skechers product offerings of men's, women's and children's footwear appeal to a broad customer base between the ages of 5 and 40 years. Skechers men's and women's footwear are primarily designed with the active, youthful lifestyle of the 12 to 25 year old age group in mind. Products include basic styles, and seasonal or fashion styles. Seasonal or fashion styles are designed to establish or capitalize on market trends. The Company increased its styles offered from approximately 600 for the year ended December 31, 1997 to approximately 900 for the year ended December 31, 1998. Management believes that a substantial portion of the Company's gross sales were generated from styles which management considers basic.

The Company has realized rapid growth since inception, increasing net sales at a compound annual growth rate of 42.4% from \$90.8 million in 1994 to \$372.7 million in 1998. From 1997 to 1998, the Company experienced a 102.7% and 117.4% increase in net sales and earnings from operations, respectively. The Company also experienced an improvement in gross profit as a percentage of net sales from 37.4% to 41.5% and in earnings from operations as a percentage of net sales from 8.5% to 9.1% over this same period. These improvements resulted in part from the shift to

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offering Skechers product exclusively and in part from economies of scale. In the future, the Company's rate of growth will be dependent upon, among other things, the continued success of its efforts to expand its footwear offerings. There can be no assurance that the rate of growth will not decline in future periods or that the Company will improve or maintain operating margins.

As the Company's net sales growth has accelerated, management has focused on investing in infrastructure to support continued expansion in a disciplined manner. Major areas of investment have included expanding the Company's distribution facilities, hiring additional personnel, developing product sourcing and quality control offices in Taiwan, upgrading the Company's management information systems, developing and expanding the Company's retail stores and launching its direct mail business in August 1998 through its web site and catalog. The Company has established this infrastructure to achieve further economies of scale in anticipation of continued increases in net sales. Because expenses relating to this infrastructure are fixed, at least in the short-term, operating results and margins would be adversely affected if the Company does not achieve anticipated continued growth.

As of March 31, 1999, the Company operated 22 concept stores at marquee locations in major metropolitan cities. Each concept store serves not only as a showcase for the Company's full product offering for the current season but also

as a rapid product feedback mechanism. Product sell-through information derived from the Company's concept stores enables the Company's sales, merchandising and production staff to respond to market changes and new product introductions. Such responses serve to augment sales and limit inventory markdowns and customer returns and allowances. As of March 31, 1999, the Company also operated 15 factory and warehouse outlet stores that enable the Company to liquidate excess, discontinued and odd-size inventory in a cost efficient manner. The Company plans to increase the number of retail locations in the future to further its strategic goals as well as in an effort to increase net sales and net earnings. The Company plans to open at least two new concept stores and four new outlet stores in the remainder of 1999. For the year ended December 31, 1998 approximately 7.4% of net sales were generated by the Company's retail stores.

During 1998, Skechers sold to approximately 2,200 retail accounts representing in excess of 10,000 storefronts. For the year ended December 31, 1998, The Venator Group represented 11.8% of the Company's net sales. Other than the foregoing, no one customer accounted for 10.0% or more of the Company's net sales for such period. Management has implemented a strategy of controlling the growth of the distribution channels through which the Company's products are sold in order to protect the Skechers brand name, properly service customer accounts and better manage the growth of the business. Increasing sales to existing customers and the opening of additional retail stores depend on various factors, including strength of the Company's brand name, competitive conditions, the ability of the Company to manage the increased sales and stores and the availability of desirable locations. There can be no assurance that the Company will be able to increase its sales to existing customers or to open and operate new retail stores on a profitable basis. There can be no assurance that the Company's growth strategy will be successful or that the Company's net sales or net earnings will increase as a result of the implementation of such efforts.

Although the Company's primary focus is on the domestic market, the Company presently markets its product in countries in Europe, Asia and selected other foreign regions through distributorship agreements. For the year ended December 31, 1998, approximately 9.3% of the Company's net sales was derived from its international operations. To date, substantially, all international sales have been made in U.S. Dollars, although there can be no assurance that this will continue to be the case. The Company's goal is to increase sales through distributors by heightening the Company's marketing support in these countries. Sales through foreign distributors result in lower gross margins to the Company than domestic sales. To the extent that the Company expands its international operations through distribution arrangements, its overall gross margins may be adversely affected. In 1998, the Company launched its first major international advertising campaign

in Europe and Asia. In an effort to increase profit margins on products sold internationally and more effectively promote the Skechers brand name, the Company is exploring selling directly to retailers in certain European countries in the future. In addition, the Company is exploring selectively opening flagship retail stores internationally on its own or through joint ventures. There can be no assurance that such expansion plans will be successful.

Management believes that selective licensing of the Skechers brand name to non-footwear-related manufacturers may broaden and enhance the Skechers image without requiring significant capital investments or the incurrence of significant incremental operating expenses by the Company. Although the Company has licensed certain manufacturers to produce and market certain Skechers products on a limited basis, to date it has not derived any significant royalty income from such licensing arrangements. Royalty income is recognized as revenue when earned. The substantial portion of the Company's royalty income to date was derived from royalties paid in connection with sales of "Karl Kani" licensed apparel. The Company divested the license in August 1997. Management believes that revenues from licensing agreements will not be a material source of growth for the Company in the near term; however, management believes that such

revenues may present an attractive long-term opportunity with minimal near-term costs.

The Company contracts with third parties for the manufacture of all of its products. The Company does not own or operate any manufacturing facilities. For the year ended December 31, 1998, the top four manufacturers of the Company's products accounted for 15.4%, 14.2%, 12.1% and 10.4% of total purchases, respectively. Other than the foregoing, no one manufacturer accounted for more than 10.0% of the Company's total purchases for such period. To date, substantially all products are purchased in U.S. Dollars, although there can be no assurance that this will continue to be the case. The Company believes the use of independent manufacturers increases its production flexibility and capacity while at the same time allowing the Company to substantially reduce capital expenditures and avoid the costs of managing a large production work force. Substantially all of the Company's products are produced in China. The Company finances its production activities in part through the use of interest-bearing open purchase agreements with its Asian manufacturers. These facilities currently bear interest at a rate between 9.0% and 12.0% per annum with financing for up to 90 days. Management believes that the use of these unsecured facilities affords the Company additional liquidity and flexibility.

Finished goods are reviewed, inspected and shipped to domestic accounts primarily from the Company's distribution centers located in Ontario, California, and are primarily shipped directly from the manufacturer to Skechers' international distributors. The Company intends to install a new material handling system in its most recently opened distribution center to enhance its ability to monitor inventory levels and distribution activities at such site. The system, which is expected to cost \$10.0 million, is anticipated to become operational mid-2000.

In May 1992, the Company elected to be treated for Federal and state income tax purposes as an S Corporation under Subchapter S of the Code and comparable state laws. As a result, earnings of the Company, since such initial election, have been included in the taxable income of the Company's stockholders for Federal and state income tax purposes, and the Company has not been subject to income tax on such earnings, other than franchise and net worth taxes. Upon the termination of the Company's S Corporation status, the Company will be treated for Federal and state income tax purposes as a corporation under Subchapter C of the Code and, as a result, will become subject to state and Federal income taxes. By reason of the Company's treatment as an S Corporation for Federal and state income tax purposes, the Company, since inception, has provided to its stockholders funds for the payment of income taxes on the earnings of the Company. The Company declared distributions consisting of amounts attributable to payment of such taxes of \$112,000, \$3.2 million and \$7.9 million in 1996, 1997 and 1998, respectively. In January 1999, the Company made the January 1999 Distribution consisting of \$368,000 of assets related to the "Cross Colours" trademark. See "Certain Transactions." In April 1999, the Company anticipates making the April Tax Distribution consisting of the first installment of Federal income taxes payable on S Corporation earnings for

1998. Also, the Company will use a portion of its proceeds of the Offering to make the Final 1998 Distribution consisting of the final installment of Federal income taxes payable on S Corporation earnings for 1998. The amount of the April Tax Distribution is estimated to be approximately \$3.5 million and the amount of the Final 1998 Distribution is estimated to be approximately \$7.6 million. Upon the termination of the Company's S Corporation status, the Company will also declare (i) the Final Tax Distribution consisting of income taxes payable on S Corporation earnings from January 1, 1999 through the date of termination of the Company's S Corporation status, and (ii) the Final S Corporation Distribution in an amount designed to constitute the substantial portion of the Company's remaining and undistributed accumulated S Corporation earnings through the date of termination of the Company's S Corporation status. The Company estimates that the amount of the Final Tax Distribution will be approximately \$3.4 million and

the amount of the Final S Corporation Distribution will be approximately \$22.0 million and such amounts will be paid with a portion of the net proceeds of the Offering. See "Use of Proceeds." Purchasers of shares of Class A Common Stock in the Offering will not receive any portion of the April Tax Distribution, the Final 1998 Distribution, the Final Tax Distribution or the Final S Corporation Distribution. On and after the date of such termination, the Company will no longer be treated as an S Corporation and, accordingly, will be fully subject to Federal and state income taxes. All pro forma income taxes reflect adjustments for Federal and state income taxes as if the Company had been taxed as a C Corporation rather than an S Corporation.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated, selected information from the Company's results of operations as a percentage of net sales. Pro forma reflects adjustments for federal and state income taxes as if the Company had been taxed as a C Corporation rather than an S Corporation.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1996	1997	1998
	----	----	----
<S>	<C>	<C>	<C>
Net sales.....	100.0%	100.0%	100.0%
Cost of sales.....	70.4	62.6	58.5
	----	----	----
Gross profit.....	29.6	37.4	41.5
Royalty income, net.....	1.4	0.5	0.2
	----	----	----
	31.0	37.9	41.7
	----	----	----
Operating expenses:			
Selling.....	10.2	11.8	13.4
General and administrative.....	16.4	17.6	19.2
	----	----	----
	26.6	29.4	32.6
	----	----	----
Earnings from operations.....	4.4	8.5	9.1
Interest expense, net.....	(2.8)	(2.3)	(2.3)
Other, net.....	0.1	0.0	(0.1)
	----	----	----
Earnings before pro forma income taxes.....	1.7	6.2	6.7
Pro forma income taxes.....	0.7	2.5	2.7
	----	----	----
Pro forma net earnings.....	1.0%	3.7%	4.0%
	=====	=====	=====

</TABLE>

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Net Sales

Net sales increased \$188.9 million, or 102.7%, to \$372.7 million for the year ended December 31, 1998 as compared to \$183.8 million for the year ended December 31, 1997. This increase was due to increased sales of branded footwear primarily as a result of (i) greater brand awareness driven in part by a significant expansion of the Company's national marketing efforts, (ii) a broader

breadth of men's, women's and children's product offerings, (iii) the development of the Company's domestic and international sales forces, (iv) the

transition of the Company's account base in the direction of larger accounts with multiple stores and increased sales to such accounts, resulting in higher sales per account, (v) the Company's opening of 12 concept and 11 outlet stores and (vi) the launch of the Company's direct mail business in August 1998. Net sales for the year ended December 31, 1998 were affected in part by the overall weakness in the retail footwear market in the fourth quarter of 1998. Gross wholesale men's footwear sales, including international, increased \$42.5 million, or 39.7%, to \$149.6 million for the year ended December 31, 1998, as compared to \$107.1 million for the year ended December 31, 1997. The increase in gross wholesale men's footwear sales was achieved despite a decline in men's "Kani" footwear sales of \$10.8 million to \$668,000 for the year ended December 31, 1998, as compared to \$11.5 million in sales for the year ended December 31, 1997. The Company discontinued actively marketing "Kani" footwear in 1997. Sales of "Kani" footwear for the year ended December 31, 1998 resulted from inventory close-outs, which were substantially completed during this fiscal period. Gross wholesale women's footwear sales, including international, increased \$100.2 million, or 201.0%, to \$150.1 million for the year ended December 31, 1998 as compared to \$49.9 million for the year ended December 31, 1997. Gross wholesale children's footwear sales, including international, increased \$34.5 million, or 163.5%, to \$55.6 million for the year ended December 31, 1998 as compared to \$21.1 million for the year ended December 31, 1997. Sales of children's "Kani" footwear represented \$20,000 and \$3.3 million of such sales for the year ended December 31, 1998 and 1997, respectively. Provisions for returns and allowances were \$10.8 million for the year ended December 31, 1998 as compared to \$5.5 million for the year ended December 31, 1997. Net sales through the Company's retail stores increased \$17.6 million, or 177.2%, to \$27.4 million for the year ended December 31, 1998 as compared to \$9.8 million for the year ended December 31, 1997. This increase is due to an increase in sales from pre-existing stores and new store openings. Net sales generated from international operations increased \$7.0 million, or 25.3%, to \$34.7 million for the year ended December 31, 1998 as compared to \$27.7 million for the year ended December 31, 1997.

Gross Profit

The Company's gross profit increased \$85.9 million, or 124.9%, to \$154.6 million for the year ended December 31, 1998 compared to \$68.7 million for the year ended December 31, 1997. The increase was attributable to higher sales and an improvement in gross profit as a percentage of net sales (the "Gross Margin"). The Gross Margin increased to 41.5% for the year ended December 31, 1998 from 37.4% for the year ended December 31, 1997. The increase in the Gross Margin was primarily due to (i) an increase in the proportions of total sales derived from the women's and children's footwear line, which had a higher margin than the men's footwear line, (ii) better retail sell-through at the Company's retail customer accounts, which typically results in fewer markdowns, (iii) an increase in the Company's retail store sales, since such retail gross margins are higher than customer retail gross margins as a percentage of net sales and (iv) decreased international sales as a percentage of net sales as international sales through distributors carry a lower Gross Margin.

Royalty Income, Net

Royalty income, net of related expenses, decreased \$39,000, or 4.4%, to \$855,000 for the year ended December 31, 1998 compared to \$894,000 for the year ended December 31, 1997. The Company receives royalty income based upon a percentage of sales of its sublicensees. The decrease was due to the termination of the Company's license relating to "Kani" apparel. Royalty income attributable to sales of "Kani" apparel represented \$189,000 and \$1.2 million of total royalty income for the years ended December 31, 1998 and 1997, respectively.

Selling Expenses

Selling expenses include sales salaries, commissions and incentives, advertising, promotions and trade shows. Selling expenses increased \$28.4 million, or 131.6%, to \$50.0 million (13.4% of

net sales) for the year ended December 31, 1998 from \$21.6 million (11.7% of net sales) for the year ended December 31, 1997. The increase in total dollars was primarily due to increased advertising expenditures and sales compensation due to the increase in footwear sales, the implementation of a new sales compensation package and the hiring of additional sales personnel. The increase as a percentage of sales was due to a discretionary decision to increase advertising expenses in the fourth quarter of 1998.

General and Administrative Expenses

General and administrative expenses increased \$39.1 million, or 120.6%, to \$71.5 million (19.2% of net sales) for the year ended December 31, 1998 from \$32.4 million (17.6% of net sales) for the year ended December 31, 1997. The increase in total dollars and as a percentage of net sales is primarily due to (i) the hiring of additional personnel, (ii) an increase in costs associated with the Company's distribution facilities to support the Company's growth, (iii) increased product design and development costs, (iv) the addition of 23 retail stores which were not open in 1997, and (v) increased discretionary expenses consisting of bonuses paid to an executive officer and certain employees. Also included in general and administrative expenses for the years ended December 31, 1998 and 1997 are \$7.0 million and \$2.6 million, respectively, of bonus compensation expense, including those related to the Company's 1996 Incentive Compensation Plan (the "1996 Incentive Compensation Plan") which expired on December 31, 1998. See "Management -- Executive Compensation -- Summary Compensation Table."

Interest Expense

Interest expense increased \$4.4 million, or 106.2%, to \$8.6 million for the year ended December 31, 1998 as compared to \$4.2 million for the year ended December 31, 1997 as a result of increased borrowings under the Company's revolving line of credit to fund the Company's expanded operations and interest expense associated with open purchase agreements with the Company's Asian manufacturers, which in part finance the Company's manufacturing activities.

Pro Forma Income Taxes

Pro forma income taxes have been provided at the assumed rate of 40.0% for Federal and state purposes.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Net Sales

Net sales increased \$68.4 million, or 59.3%, to \$183.8 million for the year ended December 31, 1997 from \$115.4 million for the year ended December 31, 1996. The increase was due to increased sales of branded footwear primarily as a result of (i) greater domestic brand awareness driven in part by a significant expansion of the Company's sales forces, (ii) a broad breadth of men's, women's and children's product offering, (iii) the development of the Company's domestic and international sales forces and (iv) the transition of the Company's account base in the direction of larger accounts with multiple stores, resulting in higher sales per account. Gross wholesale men's footwear sales, including international, increased \$26.1 million, or 32.3%, to \$107.1 million for the year ended December 31, 1997 as compared to \$80.9 million for the year ended December 31, 1996. The increase in gross wholesale men's footwear sales was achieved despite a decline in men's "Kani" footwear sales of \$2.2 million to \$11.5 million for the year ended December 31, 1997 as compared to \$13.7 million for the year ended December 31, 1996. The Company discontinued actively marketing "Kani" footwear in 1997 and a substantial portion of sales of "Kani" footwear during 1997 consisted of inventory close-outs. The Company began to de-emphasize

the sale of "Kani" footwear in late 1995 and early 1996 to concentrate its marketing and sales efforts on its Skechers product line. Gross wholesale women's footwear sales, including international, increased \$25.1 million, or 101.3%, to

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\$49.9 million for the year ended December 31, 1997 as compared to \$24.8 million for the year ended December 31, 1996. Gross wholesale children's footwear sales, including international, increased \$10.2 million, or 93.7%, to \$21.1 million for the year ended December 31, 1997 as compared to \$10.9 million for the year ended December 31, 1996. Sales of children's "Kani" footwear represented \$3.3 million and \$4.1 million of such sales for the years ended December 31, 1997 and 1996, respectively. Sales of children's "Kani" footwear in 1997 substantially represented inventory close-out sales. Provisions for returns and allowances were \$5.5 million for each of the years ended December 31, 1997 and 1996. Net sales through the Company's retail stores increased \$6.5 million, or 194.5%, to \$9.8 million for the year ended December 31, 1997 as compared to \$3.3 million for the year ended December 31, 1996. This increase was due to an increase in sales from pre-existing stores and new store openings. Net sales generated from international operations decreased \$3.9 million, or 12.2%, to \$27.7 million for the year ended December 31, 1997 as compared to \$31.6 million for the year ended December 31, 1996 largely as a result of a realignment of the Company's foreign distribution arrangements.

Gross Profit

Gross profit increased \$34.5 million, or 100.9%, to \$68.7 million for the year ended December 31, 1997 from \$34.2 million for the year ended December 31, 1996. The increase was attributable to higher sales and an improvement in the Gross Margin. The Gross Margin increased to 37.4% for the year ended December 31, 1997 from 29.6% for the year ended December 31, 1996. The increase in the Gross Margin was primarily due to (i) better retail sell-through at the Company's retail customer accounts which allowed for fewer markdowns, (ii) an increase in the proportion of total sales derived from the women's and children's footwear line, which had a higher margin than the men's footwear line, (iii) the increase in the Company's retail store sales and (iv) decreased international sales as a percentage of net sales as international sales through distributors carry a lower Gross Margin, offset in part by inventory close-out sales of "Kani" branded footwear.

Royalty Income, Net

Royalty income, net of related expenses, decreased \$698,000, or 43.8%, to \$894,000 for the year ended December 31, 1997 from \$1.6 million for the year ended December 31, 1996. The decrease was due to decreased sales of apparel under the Company's "Kani" license. Royalty income attributed to sales of "Kani" apparel represented \$1.2 million and \$2.1 million of total royalty income for the years ended December 31, 1997 and 1996, respectively.

Selling Expenses

Selling expenses increased \$9.8 million, or 83.9%, to \$21.6 million (11.8% of net sales) for the year ended December 31, 1997 from \$11.7 million (10.2% of net sales) for the year ended December 31, 1996. The increase in total dollars was primarily due to increased advertising expenditures and sales commissions and incentives due to the increase in footwear sales. The increase as a percentage of sales was due to increased advertising expenses on a percentage of net sales.

General and Administrative Expenses

General and administrative expenses increased \$13.5 million, or 71.1%, to \$32.4 million (17.6% of net sales) for the year ended December 31, 1997 as compared to \$18.9 million (16.4% of net sales) for the year ended December 31,

1996. The increase in total dollars was primarily due to (i) the hiring of additional personnel and related costs to support the Company's substantial growth in sales, (ii) an increase in costs associated with the Company's distribution facilities to support the Company's growth, (iii) the addition of seven retail stores which were not open in 1996, (iv) increased product design and development costs and (v) bonus compensation expense of \$2.6 million including those related to the Company's 1996 Incentive Compensation Plan. See

"Management -- Executive Compensation -- Summary Compensation Table." Included in the \$18.9 million of general and administrative expenses for 1996 is a one-time \$530,000 charge to operations related to costs of the terminated public offering of the "Kani" division. The increase in general and administrative expenses as a percentage of net sales is attributable to the \$2.6 million of bonus compensation expense, including those related to the Company's 1996 Incentive Compensation Plan.

Interest Expense

Interest expense increased \$955,000, or 29.6%, to \$4.2 million for the year ended December 31, 1997 as compared to \$3.2 million for the year ended December 31, 1996 as a result of increased borrowings under the Company's revolving line of credit to fund the Company's expanded operations and interest expense associated with open purchase agreements with the Company's Asian manufacturers.

Pro Forma Income Taxes

Pro forma income taxes have been provided at the assumed rate of 40.0% for Federal and state purposes.

LIQUIDITY AND CAPITAL RESOURCES

To date, the Company has relied upon internally generated funds, trade credit, borrowings under credit facilities and loans from stockholders to finance its operations and expansion. The Company's need for funds arises primarily from its working capital requirements, including the need to finance its inventory and receivables. The Company's working capital was \$23.1 million and \$17.1 million at December 31, 1998 and 1997, respectively. The increase in working capital at December 31, 1998 was primarily due to increases in receivables and inventories due to seasonal requirements and the need to support additional Company retail stores. Inventory at December 31, 1998 and 1997 was \$65.4 million and \$45.8 million, respectively. Trade accounts receivable, net of reserves, at December 31, 1998 and 1997 were \$46.8 million and \$31.2 million, respectively. Trade accounts receivable increases reflect the higher level of footwear sales. Inventory levels increased in 1998 due to advance customer orders.

As part of the Company's working capital management, the Company performs substantially all customer credit functions internally, including extension of credit and collections. The Company's bad debt write-offs were less than 1.0% of net sales for each of the years ended December 31, 1998 and 1997. The Company carries bad debt insurance to cover approximately the first 90.0% of bad debts on substantially all of the Company's major retail accounts. As of December 31, 1998 and 1997, 65.1% and 47.1%, respectively, of the Company's accounts receivables was covered under this insurance.

Net cash used in operating activities totaled \$4.3 million and \$2.1 million for the years ended December 31, 1998 and 1997, respectively. The decrease of cash provided by operating activities for the year ended December 31, 1998 compared to the year ended December 31, 1997 was due to an increase in trade

accounts receivable and inventory balances.

Net cash used in investing activities was \$9.4 million and \$6.8 million for the years ended December 31, 1998 and 1997, respectively. The increase in net cash used in investing activities in 1998 was primarily due to increased capital expenditures in connection with the establishment of the Company's distribution facilities in Ontario, California, additional hardware and software for the Company's computer needs and additional Company retail stores.

Capital expenditures totaled \$9.4 million and \$6.2 million for the years ended December 31, 1998 and 1997, respectively. The increase in 1998 relates primarily to the establishment of the Company's distribution centers in Ontario, California, the purchase of additional hardware and

software for the Company's computer needs and additional Company retail stores. The Company estimates that its capital expenditures for the year ending December 31, 1999 will be approximately \$10.0 million, of which approximately \$4.3 million will be used for the installation of a new material handling system for the Company's most recently opened distribution facility. Total expenditures for the new material handling system are expected to be approximately \$8.5 million, the balance of which will be spent in 2000. The Company also anticipates spending \$1.4 million for expenditures on equipment for the Company's distribution facilities, and \$4.9 million capital expenditures related to general corporate purposes in 1999, including leasehold improvements and purchases of furniture and equipment in connection with the opening of additional retail stores, additions and advancements to the Company's management information systems, costs associated with trade show booths and leasehold improvements to the Company's facilities.

Net cash provided by financing activities was \$23.2 million and \$10.2 million for the years ended December 31, 1998 and 1997, respectively. The increase in net cash provided by financing activities in 1998 was primarily due to increased borrowings under the Company's revolving line of credit to finance capital expenditures, increased accounts receivables and inventories and to fund S Corporation distributions.

The Company's credit facility provides for borrowings under a revolving line of credit of up to \$120.0 million and a term loan, with actual borrowings limited to available collateral and certain limitations on total indebtedness (approximately \$7.0 million of availability as of December 31, 1998) with Heller Financial, Inc., as agent for the lenders. The revolving line of credit bears interest at the Company's option at either the prime rate (7.75% at December 31, 1998) plus 25 basis points or at Libor (5.07% at December 31, 1998) plus 2.75%. The revolving line of credit expires on December 31, 2002. Interest on the revolving line of credit is payable monthly in arrears. The revolving line of credit provides a sub-limit for letters of credit of up to \$18.0 million to finance the Company's foreign purchases of merchandise inventory. As of December 31, 1998, the Company had approximately \$3.9 million of letters of credit under the revolving line of credit. The term loan component of the credit facility, which has a principal balance of approximately \$2.7 million as of December 31, 1998, bears interest at the prime rate plus 100 basis points and is due in monthly installments with a final balloon payment December 2002. The proceeds from this note were used to purchase equipment for the Company's distribution centers in Ontario, California and the note is secured by such equipment. The Company intends to use a portion of the net proceeds of the Offering to repay approximately \$54.3 million under the revolving line of credit and \$12.2 million outstanding under the Unsubordinated Note and Subordinated Note. See "Use of Proceeds." By repaying such indebtedness, the Company expects to have more flexibility and liquidity to pursue its growth strategies. The credit facility contains certain financial covenants that require the Company to maintain minimum tangible net worth of at least \$20.0 million, working capital of at

least \$14.0 million and specified leverage ratios and limit the ability of the Company to pay dividends if it is in default of any provisions of the credit facility. The Company was in compliance with these covenants as of December 31, 1998. The credit facility is collateralized by the Company's real and personal property, including, among other things, accounts receivable, inventory, general intangibles and equipment and is guaranteed by Skechers By Mail, Inc., the Company's wholly-owned subsidiary. As of December 31, 1998, the Unsubordinated Note and Subordinated Note bear interest at the prime rate (7.75% at December 31, 1998) and are due on demand. The Greenberg Family Trust has agreed not to require repayment of the Subordinated Note prior to January 2000. The Company recorded interest expense of approximately \$540,000, and \$1.1 million related to notes payable to the Greenberg Family Trust during the years ended December 31, 1998, and 1997, respectively. See "Use of Proceeds" and "Certain Transactions."

By reason of the Company's treatment as an S Corporation for Federal and state income tax purposes, the Company since inception has provided to its stockholders funds for the payment of income taxes on the earnings of the Company. The Company declared distributions attributable to payment of such taxes of \$7.9 million and \$3.2 million in 1998 and 1997, respectively. In April 1999,

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the Company will declare the April Tax Distribution, estimated to be \$3.5 million, and upon consummation of the Offering will declare the Final 1998 Distribution, estimated to be \$7.6 million, the Final Tax Distribution, estimated to be \$3.4 million, and the Final S Corporation Distribution, estimated to be \$22.0 million. Following the termination of the Company's S Corporation status, earnings will be retained for the foreseeable future in the operations of the business. See "Prior S Corporation Status" and "Dividend Policy."

The Company believes that anticipated cash flows from operations, available borrowings under the Company's revolving line of credit, after repayment of indebtedness described under "Use of Proceeds," cash on hand and its financing arrangements will be sufficient to provide the Company with the liquidity necessary to fund its anticipated working capital and capital requirements through fiscal 2000. However, in connection with its growth strategy, the Company will incur significant working capital requirements and capital expenditures. The Company's future capital requirements will depend on many factors, including, but not limited to, the levels at which the Company maintains inventory, the market acceptance of the Company's footwear, the levels of promotion and advertising required to promote its footwear, the extent to which the Company invests in new product design and improvements to its existing product design and the number and timing of new store openings. To the extent that available funds are insufficient to fund the Company's future activities, the Company may need to raise additional funds through public or private financing. No assurance can be given that additional financing will be available or that, if available, it can be obtained on terms favorable to the Company and its stockholders. Failure to obtain such financing could delay or prevent the Company's planned expansion, which could adversely affect the Company's business, financial condition and results of operations. In addition, if additional capital is raised through the sale of additional equity or convertible securities, dilution to the Company's stockholders could occur. See "Use of Proceeds."

QUARTERLY RESULTS AND SEASONALITY

The table below sets forth certain quarterly operating data of the Company. This quarterly information is unaudited, but in management's opinion reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented when read in conjunction with the Company's Consolidated Financial Statements and Notes thereto.

<TABLE>
<CAPTION>

	1996		1997			1998					
	SEPT. 30	DEC. 31	MARCH 31	JUNE 30	SEPT. 30	DEC. 31	MARCH 31	JUNE 30	SEPT. 30	DEC. 31	
	THREE MONTHS ENDED										
	(IN THOUSANDS)										
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales.....	\$39,277	\$32,582	\$27,591	\$32,705	\$62,562	\$60,969	\$59,873	\$87,684	\$143,045	\$82,078	
Gross profit.....	12,377	11,017	9,207	11,125	23,552	24,839	22,483	35,997	62,176	33,924	
Earnings (loss) from operations.....	4,854	2,877	(299)	2,244	8,203	5,488	2,505	10,834	24,460	(3,808)	
Pro forma net earnings (loss).....	2,393	919	(559)	760	4,278	2,369	651	4,759	13,553	(3,890)	

Sales of footwear products are somewhat seasonal in nature with the strongest sales generally occurring in the third and fourth quarters. In 1996 and 1997, 34.0% and 34.0% of net sales, respectively, and 94.7% and 52.5% of earnings from operations, respectively, were generated in the third quarter and 28.2% and 33.2% of net sales, respectively, and 56.1% and 35.1% of earnings from operations, respectively, were generated in the fourth quarter. However, in 1998, 38.4% of net sales and 72.0% of earnings from operations were generated in the third quarter and 22.0% of net sales and a loss from operations were generated in the fourth quarter. Management believes that annual seasonal fluctuations will typically result in the Company realizing a significant percentage of earnings from operations in the fourth quarter.

Although net sales increased by \$21.1 million in the fourth quarter of 1998 as compared to the fourth quarter of 1997, the Company's net sales in the fourth quarter of 1998 were adversely affected by the overall weakness in the retail footwear market. Management believes this weakness resulted

from a substantial number of store closings by unprofitable chains, as well as store and inventory rationalizations at other chains, that combined to produce heavy promotional activity at the retail level. These closures, inventory liquidations and promotional activities adversely affected the Company's net sales. Management believes that these closures in the aggregate should have a positive impact on the footwear retailing industry in the future.

Operating results for the fourth quarter of 1998 were impacted by certain discretionary expenses consisting of approximately \$3.0 million in bonuses paid to an executive officer and certain employees, and \$242,000 in 401(k) employer matching contributions. Results for this quarter were also impacted by significantly higher marketing expenses as a percentage of net sales than the Company typically incurs. The Company chose to spend \$15.1 million in marketing expenditures, \$9.1 million of which was expended in December 1998. Expenses were also affected by costs associated with the opening of six new Company stores in the fourth quarter of 1998.

Management believes that the Company's operating results for the first quarter of 1999 were not affected to the same degree by those factors which impacted the Company's operating results in the fourth quarter of 1998. The improvement in the retail footwear market and the expected reduction in marketing and incentive compensation expenses is expected to have a positive effect on the Company's first quarter operating results.

The Company has experienced, and expects to continue to experience,

variability in its net sales, operating results and net earnings, on a quarterly basis. The Company's domestic customers generally assume responsibility for scheduling pickup and delivery of purchased products. Any delay in scheduling or pickup which is beyond the Company's control could materially negatively impact the Company's net sales and results of operations for any given quarter. The Company believes the factors which influence this variability include (i) the timing of the Company's introduction of new footwear products, (ii) the level of consumer acceptance of new and existing products, (iii) general economic and industry conditions that affect consumer spending and retail purchasing, (iv) the timing of the placement, cancellation or pickup of customer orders, (v) increases in the number of employees and overhead to support growth, (vi) the timing of expenditures in anticipation of increased sales and customer delivery requirements, (vii) the number and timing of new Company retail store openings and (viii) actions by competitors. Due to these and other factors, the operating results for any particular quarter are not necessarily indicative of the results for the full year.

INFLATION

The Company does not believe that the relatively moderate rates of inflation experienced in the United States over the last three years have had a significant effect on its net sales or profitability. However, the Company 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 the Company's products are manufactured, the Company does not believe that inflation has had a material effect on the Company's net sales or profitability. In the past, the Company has been able to offset its foreign product cost increases by increasing prices or changing suppliers, although no assurance can be given that the Company will be able to continue to make such increases or changes in the future.

EXCHANGE RATES

The Company receives U.S. Dollars for substantially all of its product sales and its royalty income. Inventory purchases from offshore contract manufacturers are primarily denominated in U.S. Dollars; however, purchase prices for the Company's 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 the Company's cost of goods in the future. During 1997 and 1998, exchange rate fluctuations did not have a material impact on the Company's inventory costs.

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The Company does not engage in hedging activities with respect to such exchange rate risk. See "Risk Factors -- Risks Associated with Foreign Operations."

MARKET RISK

The Company does not hold any derivative securities or other market rate sensitive instruments.

YEAR 2000 COMPLIANCE

The Company relies on its internal computer systems to manage and conduct its business. The Company also relies, directly and indirectly, on external systems of business enterprises such as third party manufacturers and suppliers, customers, creditors and financial organizations, and of governmental entities, both domestic and internationally, for accurate exchange of data.

Many existing computer programs were designed and developed without regard for the Year 2000 ("Y2K") and beyond. If the Company or its significant third party business partners and intermediaries fail to make necessary modifications, conversions, and contingency plans on a timely basis, the Y2K issue could have a

material adverse effect on the Company's business and financial condition. Management believes that its competitors face a similar risk. In recognition of this risk, the Company has established a project team to assess, remediate, test and develop contingency plans.

State of Readiness

The Company has developed a Y2K plan with the objective of having all of its information technology ("IT") systems compliant by September 1999. The Company's significant IT systems include its order management and inventory system, electronic data interchange ("EDI") system, distribution center processing system, retail merchandise and point of sale system, financial applications system, local area network and personal computers. The Company is currently making Y2K changes to its order management and inventory system and plans to begin testing in April 1999 with implementation targeted for June 1999. The Company is currently testing its EDI system with implementation planned for May 1999. The Company has completed substantially all Y2K changes to its distribution center processing system except for upgrading the operating system to the Y2K version. Upgrade to the Y2K version is part of the Company's on-going maintenance contract with its vendor. The Company will begin upgrading the operating system in May 1999 with implementation targeted for September 1999. The Company's retail merchandise and point of sale system is currently undergoing an upgrade with testing and implementation targeted for July 1999. The Company's financial applications system is currently undergoing an upgrade with testing and implementation targeted for May 1999. The EDI system upgrades for the Company's retail and financial application systems began in 1998 for the purpose of enhancing system functionality to accommodate the Company's expanding business and related information needs. The Company's local area network hardware and software providers have advised the Company that such systems are Y2K compliant. The Company plans to begin assessing its personal computers during April 1999 with necessary changes completed by September 1999.

The Company's non-IT systems include security, fire prevention, environmental control equipment and phone systems. Many of these systems are currently Y2K compliant. Modification to the remaining systems are expected by September 1999.

The Company's Y2K project team plans to send surveys and conduct formal communications with its significant business partners beginning in April 1999 to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Y2K issues. This process is expected to continue throughout 1999.

Risks and Contingency Plans

The Company is not aware of any material operational issues associated with preparing its internal systems for the Y2K, however, there is no assurance that there will not be a delay in the

implementation. The Company's inability to implement such systems and changes in a timely manner could have a material adverse effect on future results of operations, financial condition and cash flows.

The potential inability of the Company's significant business partners and intermediaries to address their own Y2K issues remains a risk which is difficult

to assess. The Company is dependent on four key manufacturers located in China for the production of its footwear. The failure of one or more of these manufacturers to adequately address their own Y2K issues could interrupt the Company's supply chain. The inability of port authorities or shipping lines to address their own Y2K issues could also interrupt the Company's supply chain. Additionally, the inability of one or more of the Company's significant customers to become Y2K compliant could adversely impact the Company's sales to those customers.

The Company is developing contingency plans which may include finding alternative suppliers, manual interventions and adding increased staffing. There is no assurance that the Company will correctly anticipate the level, impact or duration of noncompliance by its significant business partners that provide inadequate information.

As the Company has not completed evaluations of its significant business partners' Y2K readiness, the Company is currently unable to determine the most reasonable likely worst case scenario. The Company will continue its efforts towards contingency planning throughout 1999.

Costs

The Company estimates its costs associated with becoming Y2K compliant will be less than \$100,000, exclusive of system upgrades incurred in the normal course of business. Efforts to modify the Company's IT systems have substantially been performed internally, however, the Company does not separately track such costs. These costs primarily relate to salaries and wages which are expensed as incurred.

FUTURE ACCOUNTING CHANGES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). SFAS No. 133 modifies the accounting for derivative and hedging activities and is effective for fiscal years beginning after December 15, 1999. Since the Company does not presently invest in derivatives or engage in hedging activities, SFAS No. 133 will not impact the Company's financial position or results of operations.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1 ("SOP 98-1"), Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. The Company will adopt SOP 98-1 effective in 1999. The adoption of SOP 98-1 will require the Company to modify its method of accounting for software. Based on information currently available, the Company does not expect the adoption of SOP 98-1 to have a significant impact on its financial position or results of operations.

In April 1998, the AICPA Accounting Standards Executive Committee issued Statement of Position 98-5 ("SOP 98-5"), "Reporting on the Costs of Start-up Activities." SOP 98-5 requires that costs of start-up activities, including organization costs and retail store openings, be expensed as incurred. SOP 98-5 is effective for financial statements for fiscal years beginning after December 15, 1998. Earlier application is encouraged. Restatement of previously issued financial statements is not permitted. In the fiscal year in which the SOP 98-5 is first adopted, the application should be reported as a cumulative effect of a change in accounting principle. Management believes the adoption of SOP 98-5 will not have a material impact on the Company's financial position or results

of operations.

BUSINESS

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

GENERAL

Skechers designs and markets branded contemporary casual, active, rugged and lifestyle footwear for men, women and children. The Company's objective is to become a leading source of contemporary casual and active footwear while ensuring the longevity of both the Company and the Skechers brand name through controlled, well managed growth. The Company strives to achieve this objective by developing and offering a balanced assortment of basic and fashionable merchandise across a wide spectrum of product categories and styles, while maintaining a diversified, low-cost sourcing base and controlling the growth of its distribution channels. The Company sells its products to department stores such as Nordstrom, Macy's, Dillard's, Robinson's-May and JC Penney and specialty retailers such as Genesco's Journeys and Jarman chains, The Venator Group's Foot Locker and Lady Foot Locker chains, Pacific Sunwear and Footaction U.S.A. The Company also sells its products both internationally in over 120 countries and territories through major international distributors and directly to consumers through 37 of its own retail stores.

The Company has realized rapid growth since inception, increasing net sales at a compound annual growth rate of 42.4% from \$90.8 million in 1994 to \$372.7 million in 1998. From 1997 to 1998, the Company experienced a 102.7% and 117.4% increase in net sales and earnings from operations, respectively. The Company also experienced an improvement in gross profit as a percentage of net sales from 37.4% to 41.5% and in earnings from operations as a percentage of net sales from 8.5% to 9.1% over this same period. These improvements resulted in part from the shift to offering Skechers product exclusively and in part from economies of scale.

Management believes the Skechers product offerings of men's, women's and children's footwear appeal to a broad customer base between the ages of 5 and 40 years. Management believes the Company's strategy of providing a growing and balanced assortment of quality basic footwear and seasonal and fashion footwear with progressive styling at competitive prices gives Skechers this broader based customer appeal. Skechers men's and women's footwear are primarily designed with the active, youthful lifestyle of the 12 to 25 year old age group in mind. The Company's product offering includes casual and utility oxfords, loggers, boots and demi-boots; skate, street and fashion sneakers; hikers, trail runners and joggers; sandals, slides and other open-toe footwear; and dress casual shoes. The Company continually seeks to increase the number of styles offered and the breadth of categories with which the Skechers brand name is identified. This style expansion and category diversification is balanced by the Company's strong performance in its basic styles. The Company increased its styles offered from approximately 600 for the year ended December 31, 1997 to approximately 900 for the year ended December 31, 1998. Management believes that a substantial portion of the Company's gross sales were generated from styles which management

considers basic.

The Company's strategy in children's footwear is to adapt current fashion from the Company's men's and women's lines by modifying designs and choosing colors and materials that are more suitable to the playful image Skechers has established in the children's footwear market. The

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Skechers children's line is comprised primarily of shoes that are designed like their adult counterparts but in "takedown" versions, so that the younger set can wear the same popular styles as their older siblings and schoolmates. The playful image of Skechers children's footwear is further enhanced by the Company's Skechers Lights line, which features motion- and contact-activated lights in the outsole and other areas of the shoes. During 1998, the Company's gross wholesale footwear sales were derived 42.1% from men's, 42.2% from women's and 15.7% from children's footwear.

The Company was founded in 1992 as a distributor of Dr. Martens footwear. The Company began designing and marketing men's footwear under the Skechers brand name and other brand names including "Cross Colours," "Karl Kani" and "So . . . L.A." in 1993. Shortly after launching these branded footwear lines, the Company discontinued distributing Dr. Martens footwear. In 1995, the Company began to shift its focus to the Skechers brand name by de-emphasizing the sale of "Kani" branded products and discontinuing the sale of "Cross Colours" and "So . . . L.A." branded footwear. In early 1996, the Company substantially increased its product offerings in and marketing focus on its Skechers women's and children's lines. The Company divested the "Karl Kani" license in August 1997. Substantially all of the Company's products are marketed under the Skechers name.

INDUSTRY OVERVIEW

The Company competes in the men's, women's and children's markets for casual and rugged footwear. According to published industry sources, domestic retail sales of men's and women's footwear in dollar volume were roughly equal in 1998, representing approximately 46.1% and 44.6% of the retail footwear market, respectively. The remaining 9.3% was comprised of children's footwear. However, unit volume was skewed more heavily toward women's and children's footwear, which represented 51.0% and 18.0%, of the total units sold at retail, respectively. Men's footwear represented 31.0% of total units sold at retail in 1998. Average industry price points for men's, women's and children's footwear were approximately \$50.88, \$29.91 and \$17.51, respectively.

According to published industry sources, total retail footwear sales in the United States during 1998 were approximately \$38.8 billion, representing a 2.6% increase over 1997. Of that total, approximately \$21.7 billion, or 55.9%, was derived from sales of casual and rugged shoes, boots and sandals, including hiking and working boots. Casual footwear retail sales increased to \$19.1 billion, or 3.2%, in 1998 from \$18.5 billion in 1997, or 22.6% faster than the rate of the total footwear market. Rugged footwear retail sales increased 13.0% to \$2.6 billion in 1998 from \$2.3 billion in 1997 and has grown at a compound annual rate of 24.4% since 1992. Together, these two categories are projected to continue to outpace the overall footwear market, growing at a combined compound annual rate of 4.9% between 1998 and 2003 as compared to overall annual industry growth of 3.0%. By 2003, casual and rugged footwear retail sales are projected to reach \$27.6 billion, or approximately 61.5% of the total retail footwear market. These industry growth rates may not be indicative of the Company's future growth rate.

Retail sales of performance athletic footwear by comparison have grown at a compound annual rate of 2.9% from 1992 to 1998 but rose only 2.4% from \$12.4 billion in 1997 to \$12.7 billion in 1998. Industry sources indicate that the growth of the performance athletic shoe segment is expected to continue to slow and underperform the overall footwear market, growing only 2.3% per year between

1998 and 2003. Retail sales of dress footwear declined 4.3%, from \$4.6 billion in 1997 to \$4.4 billion in 1998, and is expected to continue to decline at a compound annual rate of 6.8% to \$3.1 billion by 2003.

Management believes that the shift to casual and rugged footwear from dress shoes and, to a lesser extent, from performance athletic shoes is a result of several factors. First, management believes that the widespread acceptance of casual dress in the workplace has had a substantial impact on footwear purchasing decisions. As this acceptance has spread from casual Fridays to the entire work week, its impact has increased. Second, according to published industry sources,

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approximately 80.0% of all athletic footwear purchased in 1996 was worn for fashion instead of athletic performance purposes. Management believes that the use of athletic footwear for non-athletic performance purposes has diminished and that the casual and rugged footwear segment is eroding the market share this 80.0% portion has historically commanded, particularly as specialty retailers such as Foot Locker, Footaction U.S.A., Finish Line and Athlete's Foot, which have traditionally focused on athletic footwear, increase their selections of casual and rugged footwear. Management believes that a recent increase in the popularity of and marketing emphasis on khaki pants among consumers and apparel companies, respectively, has accelerated and magnified the fashion shift from performance athletic to casual and rugged footwear. Third, management believes that the advent of alternative sports, which do not require traditional athletic footwear for competition, has propelled a cultural movement among teenagers and a shift in their cultural icons that have combined to generate a trend toward alternative footwear. According to published industry sources, approximately 14.5 million people currently participate in alternative or extreme sports. Participation rates are projected to increase to approximately 25.0 million by 2001.

According to the U.S. Bureau of the Census, the 12 to 25 year old age segment of the population was approximately 51.8 million people, or 19.2% of the total population, in 1998. This age group is projected to grow approximately 80.7% faster than the total U.S. population, from 1998 until 2005, when these young consumers will represent approximately 20.1% of the U.S. population. 12 to 25 year olds are expected to reach approximately 59.7 million people in 2015. The U.S. Bureau of the Census also estimates that 15 to 24 year olds generated incomes of approximately \$244.3 billion in 1995, excluding gifts, allowances and other funding from family members. According to published industry sources, teen spending increased 29% from 1993 to approximately \$111.0 billion in 1997. In 1996 approximately \$7.7 billion, or 7.1%, of total expenditures, was spent on footwear. According to published industry sources, brand is an important consideration in purchasing decisions among this age group, with 86% of female shoppers and 81% of male shoppers willing to spend more money for a brand they prefer. The influence of branding becomes apparent on consumers as young as 15 years old. Total spending by teenagers is expected to reach approximately \$135.9 billion by 2001.

Management believes that this growing demographic is an important target market within the footwear industry as a whole and within the casual and rugged segment of that industry in particular. Management also believes that teenagers and young adults set the prevailing fashion trends of their time and that these fashion trends are generally widely accepted by older and younger consumers alike in one form or another.

OPERATING STRATEGIES

The Company's operating strategies are intended to continue to differentiate the Company from other participants in the casual footwear market and to provide controlled, well-managed growth. These strategies are as follows.

Offer a Breadth of Innovative Products. The Company offered approximately 900 different styles of footwear generally in three to four different color and material variations typically in 10 to 12 different sizes during 1998. These

styles span a broad spectrum of product categories ranging from skate and street sneakers to fashion sneakers, from steel-toe boots with heavy-lugged soles to casual dress shoes for men, from hiking boots, trail runners and joggers to platform shoes, boots and sneakers. The Company has developed this breadth of merchandise offerings in an effort to improve its ability to respond to changing fashion trends and customer preferences, as well as to limit its exposure to any single industry participant. Management does not believe that any single industry participant competes directly with the Company across its entire product offering. Although major new product introductions take place in advance of both the spring and fall selling seasons, the Company typically introduces new designs in its existing lines every 30 to 60 days to keep current with emerging trends.

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All of the Company's footwear is designed with an active, youthful lifestyle in mind. The design team's primary mandate is to design shoes marketable to the 12 to 25 year old consumer. While these designs are contemporary in styling, management believes that substantially all of the line appeals to the broader 5 to 40 year old consumer. Although many of the Company's shoes have performance features, such as hikers, trail runners, skate sneakers and joggers, the Company generally does not position its shoes in the marketplace as technical performance shoes. The Company's principal goal in product design is to generate new and exciting footwear with contemporary and progressive style features and comfort enhancing performance features. Management does not believe that technology is a differentiating factor in marketing footwear in the casual shoe industry.

Enhance and Broaden the Skechers Brand Name. Management believes that the strength of the Skechers brand name is a competitive advantage and an integral part of the Company's success to date. The Company's goal is to continue to build the recognition of the Skechers name as a casual, active, youthful lifestyle brand that stands for quality, comfort, durability and design innovation. The Company's in-house marketing and advertising team has developed a comprehensive program to promote the Skechers brand name through lifestyle and image advertising. While all advertisements feature the Company's footwear, the marketing program is image driven, not product specific. The Company has made a conscious effort to avoid the association of the Skechers name with any single category of shoe to provide merchandise flexibility and to aid management's ability to take the brand and product design in the direction of evolving footwear fashions and consumer preferences. The Company supports this image through an advertising program that includes major networks and cable channels such as MTV, Nickelodeon and ESPN, as well as print advertisements in popular fashion and lifestyle consumer publications such as Spin, Details, Seventeen, Rolling Stone, Vibe, GQ and Vogue. The Company also promotes the Skechers brand name through product placement on a select group of films and popular television shows. For example, Skechers shoes have been prominently displayed on the television series Dharma & Greg and referenced in the recently released film 10 Things I Hate About You.

The Company also employs an aggressive point-of-purchase marketing campaign which includes signage and, in many cases, "in-store shops" within specialty retail stores and certain department stores. These in-store shops and visual merchandising of the Company's product and point-of-purchase marketing materials are monitored and maintained by the Company's field service representatives. Substantially all of the Company advertising is conceived and designed by its in-house staff of graphic designers. The Company also enhances its brand image with its customers through high-profile trade show presentations that feature fast-paced stage shows set to progressive dance and hip-hop music.

Maximize Strategic Value of Retail Distribution. As of March 31, 1999, the Company operated 22 concept stores at marquee locations in major metropolitan cities. These concept stores serve a threefold purpose in the Company's operating strategy. First, concept stores serve as a showcase for the full range of the Company's product offerings for the current season, providing the customer with the entire product story. In contrast, management estimates that its average retail customer carries no more than 5.0% of the complete Skechers line. Second, retail locations are generally chosen to generate maximum marketing value for the Skechers brand name through signage and store front

presentation. These locations include concept stores in Manhattan's Times Square and Santa Monica's Third Street Promenade. Third, the concept stores provide rapid product feedback. Management believes that product sell-through information derived from the Company's concept stores enables the Company's sales, merchandising and production staff to respond to market changes and new product introductions. Such responses serve to augment sales and limit the Company's inventory markdowns and customer returns and allowances. Management adjusts its product and sales strategy based upon seven to 14 days of retail sales information. The Company's concept stores serve as marketing and product testing venues. As of March 31, 1999, the Company also operated 15 factory and warehouse outlet stores that enable the Company to liquidate excess,

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discontinued and odd-size inventory in a cost-efficient manner. Inventory in these stores is supplemented by certain first-line styles sold at full retail price points generally of \$60.00 or lower.

Control Growth of Distribution Channels. Management has implemented a strategy of controlling the growth of the distribution channels through which the Company's products are sold in order to protect the Skechers brand name, properly service customer accounts and better manage the growth of the business. The Company has limited distribution of product to those retailers which management believes can best support the Skechers brand name in the market. Management believes that by focusing on the Company's existing accounts, the Company can deepen its relationships with its existing customers by providing a heightened level of customer service. Field service representatives work closely with these accounts to ensure proper presentation of merchandise and point-of-purchase marketing materials. Sales executives and merchandise personnel work closely with accounts to ensure the appropriate styles are purchased for specific accounts and for specific stores within those accounts. Management believes these close relationships help the Company to maximize their customers' (i) retail sell-through, (ii) maintained margins and (iii) inventory turns. Management believes that limiting product distribution to the appropriate accounts and closely working with those accounts helps the Company to reduce its own inventory markdowns and customer returns and allowances while maintaining the proper showcase for the Skechers brand name and product.

Leverage Management Expertise and Infrastructure. The Company's management and design team collectively possess extensive experience in the footwear industry. Robert and Michael Greenberg, the Chairman of the Board and President, respectively, founded the Company in 1992. Prior to that time, Robert Greenberg had co-founded L.A. Gear and, together with a management team which included Michael Greenberg, was instrumental in L.A. Gear's growth until his resignation in early 1992. The Greenbergs are joined on the management team by several design, merchandise, production and marketing executives with experience at a broad range of industry participants, including: Robinson's-May, Macy's, Foot Locker, Pentland Group PLC, The Stride Rite Corporation, and Track 'n Trail, as well as L.A. Gear. Management believes this core group comprises an effective and efficient management and design team with the experience to recognize and respond to emerging consumer trends and demands.

As the Company's net sales growth has accelerated, management has focused on investing in infrastructure to support continued expansion in a disciplined manner. Major areas of investment have included the expansion of the Company's distribution facilities, hiring of additional personnel, development of product sourcing and a quality control office in Taiwan, upgrading the Company's management information systems and development and expansion of Company's retail stores. The Company has established this infrastructure to achieve further economies of scale in anticipation of continued increases in net sales.

GROWTH STRATEGIES

The Company's growth strategies are to (i) expand product offerings, (ii) increase penetration of existing domestic accounts, (iii) open new retail stores and pursue other direct sales channels, (iv) expand international operations and (v) selectively license the Skechers brand name.

Expand Product Offerings. The Company continually seeks to develop new styles in existing categories and enter new product categories in an effort to grow net sales and earnings. In keeping with this strategy, the Company has been working to introduce new styles in its existing men's and women's categories. Such new styles include the men's Jammer in June 1998 and the women's Blaster in November 1997. The Company has also launched several new product categories over the past year including: Skechers Sport, which includes joggers and court shoes; Skechers Collection, a men's line featuring dress casual shoes designed to complement a young man's evening attire; Sity by Skechers, a men's line featuring newly introduced stylish urban footwear; and Skechers Lights, a

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children's line which features motion- and contact-activated lights in the outsole and other areas of the shoes.

Increase Penetration of Existing Domestic Accounts. Management's goal is to continue to increase net sales and earnings by expanding the number of styles carried by its existing accounts, increasing the retail sell-through of existing accounts and opening new locations with existing accounts. Between 1993 and 1998, the number of accounts which carry Skechers' products increased from approximately 50 to approximately 2,200. In addition, the nature of the account base has transitioned in the direction of larger accounts with multiple stores, resulting in substantially higher sales per account. The Company's strategy is to continue to better serve these accounts and grow within the existing account base so that the Company's products will be more fully represented in existing retail locations and new locations within each account. This growth strategy is expected to be augmented as specialty retail accounts continue to open new locations of their own. In addition to increasing its penetration of existing accounts, the Company intends to selectively open new accounts in the future in an effort to enhance the Company's image and increase net sales and earnings.

Open New Retail Stores and Pursue Other Direct Sales Channels. The Company's retail stores accounted for approximately 7.4% of net sales for 1998. The Company plans to increase the number of retail locations in the future in an effort to further its strategic goals as well as to increase net sales and net earnings. The Company plans to open at least two new concept stores and four new outlet stores in the remainder of 1999. In addition, the Company launched its first direct sales effort through the introduction of the Skechers mail-order catalog in the third quarter of 1998. The initial mail-order catalog included 30 styles each of the Company's men's and women's line. The catalog is supplemented by the Company's Internet website skechers.com which also allows customers to purchase the same styles over the Internet. Management believes that these new distribution channels may present attractive long-term opportunities with minimal near-term costs.

Expand International Opportunities. Although the Company's primary focus is on the domestic market, the Company presently markets its product in countries in Europe, Asia and selected other foreign regions through distributorship agreements. For the year ended December 31, 1998, approximately 9.3% of the Company's net sales were derived from its international operations. The Company's goal is to increase sales through distributors by heightening the Company's marketing support in these countries. In 1998, the Company launched its first major international advertising campaign in Europe and Asia. This advertising program is designed to establish Skechers as a global brand synonymous with casual shoes. In an effort to increase profit margins on products sold internationally and more effectively promote the Skechers brand name, the Company is exploring selling directly to retailers in certain European countries in the future. In addition, the Company is exploring selectively opening flagship retail stores internationally on its own or through joint ventures.

Selectively License the Skechers Brand Name. Management believes that selective licensing of the Skechers brand name to non-footwear-related

manufacturers may broaden and enhance the Skechers image without requiring significant capital investments or the incurrence of significant incremental operating expenses by the Company. The Company currently has licensing agreements internationally for apparel with Life Gear Corporation in Japan and for footwear with Pentland Group PLC in the United Kingdom. The Company also has a licensing agreement domestically for bags, including backpacks, purses and waist packs, with Signal Products, Inc. for distribution to Federated Department Stores and JC Penney's. Management intends to be selective in pursuing licensing business. Management believes that revenues from licensing agreements will not be a material source of growth for the Company in the near term; however, management believes that licensing arrangements may present attractive long-term opportunities with minimal near-term costs.

FOOTWEAR

Skechers offers men's, women's and children's footwear in a broad range of styles, fabrics and colors. The Company offers a broad selection of merchandise in an effort to maximize its ability to respond to changing fashion trends and consumer preferences as well as to limit its exposure to any specific style. For 1998, 42.1%, 42.2% and 15.7% of gross sales at wholesale were derived from men's, women's and children's footwear, respectively. For the year ended December 31, 1998, the Company offered approximately 900 different styles of footwear. Management believes that a substantial portion of the Company's gross sales were generated from styles which management considers basic. No single style accounted for more than 5.0% of gross wholesale sales in 1998.

Men's Footwear

The Company's introduced its first men's footwear line with the Skechers brand name in June 1993. Since that time, the Company has expanded its product offerings and grown its net sales of Skechers men's footwear while substantially increasing the breadth and penetration of its account base. During 1998, the Company marketed approximately 360 styles of men's footwear, generally ranging its size from 6 1/2 to 13 in five major groups: (i) Casuals, (ii) Active Street Footwear, (iii) Utility Boots, (iv) Hikers and (v) Sandalized Footwear.

Casuals. The Company's Casuals footwear group includes three categories: (i) Sport Utility, (ii) Classics (iii) Skechers Collection and (iv) Sity by Skechers. The Sport Utility category includes boots and shoes that have a rugged, less refined design with industrial-inspired fashion features. This category is defined by the heavy-lugged outsole and value-oriented materials employed in the uppers. Uppers are typically constructed of oiled suede and "Crazy Horse" or distressed leathers which enhance the rugged appearance of the boots and oxfords of this category. The Company designs and prices this category to appeal primarily to a younger men's target customer with broad acceptance across age groups. Suggested retail price points range from \$45.00 to \$65.00 for this category.

The Classics category includes comfort oriented design and performance features. Boots and shoes in this category employ softer outsoles which are often constructed of polyvinyl carbon ("PVC"). The more refined design of this footwear employs better grades of leather and linings than those used in the Company's Sport Utility boots and shoes. Uppers are generally constructed of grizzly leather or highly-finished leather that produces a waxy shine. Designs are sportier than the Sport Utility category and feature oxfords, wingtips, monkstraps, demi-boots and boots. Suggested retail price points range from \$70.00 to \$85.00 for this category.

The Skechers Collection category, which was introduced in 1997, features dress casual shoes designed to complement a young man's evening attire. This category features more sophisticated designs influenced, in part, by prevailing trends in Italy and other European countries. As such, this footwear is more likely than other categories to be sourced from Italy and Portugal. Outsoles project a sleeker profile, while uppers are constructed of glossy, "box" leather

and aniline, resulting in a highly polished appearance. Designs include monkstraps, wingtips, oxfords, cap toes and demi-boots and often feature blind-eyelets to enhance the sophisticated nature of the styling. Suggested retail price points range from \$85.00 to \$100.00 for this category.

The Sity by Skechers category, which was introduced in early 1999, features men's stylish urban footwear. The line includes dress casuals, casuals, boots, sneakers and athletic shoes for the fashion-forward consumer. Designs are more diverse than the Sport Utility or Skechers Collection categories and feature boots, sneakers, oxfords and moccasins. Suggested retail price points range from \$70.00 to \$100.00 for this category.

Active Street Footwear. The Company's Active Street footwear group includes Street Sneakers and Skechers Sport. Skechers Street Sneakers primarily include low-profile skate sneakers, low-profile and mid-cut sport utility sneakers with industrial-inspired styling and court/gym shoe-

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inspired street shoes. Outsoles typically are molded rubber or thermo plastic rubber ("TPR") and, in the case of sport utility sneakers, may feature lugged configurations. Uppers are typically constructed of split suede. While these designs are athletic inspired in general, with the exception of certain skate sneakers, they include few, if any, of the typical technical performance features in today's popular athletic shoes. Certain of the Company's skate sneakers are designed with the technical performance features necessary for competitive level skateboarding. This category is designed to appeal to the teenager whose casual shoe of choice is a skate or street sneaker and is intended to be retailed most heavily through specialty casual shoe stores and department stores. Suggested retail price points range from \$40.00 to \$55.00 for this category.

The Skechers Sport category includes joggers, trail runners, sport hikers and cross-trainers inspired multi-functional shoes. The Company distinguishes its Skechers Sport category by its technical performance inspired looks; however, generally the Company does not promote the technical performance features of these shoes. Skechers Sport footwear includes comfort performance not available in the Street Sneaker category. The Skechers Sport designs are light-weight constructions that include cushioned heels, polyurethane mid-soles, phylon and other synthetic outsoles and white leather or synthetic uppers such as durabuck and cordura and ballistic nylon mesh. The Skechers Sport features electric and technically inspired hues more prominently than it does the traditional athletic white. Skechers Sport is most heavily marketed through traditional athletic footwear specialty retailers. Suggested retail price points range from \$55.00 to \$70.00 for this category.

Utility Boots. The Company's Utility boot group consists of a single category of boots that are designed to meet the functional demands of a work boot but are marketed as casual footwear. The outsoles of this category are designed to be durable and wearable with Goodyear welted, hardened rubber outsoles. Uppers are constructed of thicker, better grades of heavily oiled leathers. Utility boots may include steel toes, water-resistant or water-proof construction and/or materials, padded collars and Thermolite insulation. Styles include logger boots and demi-boots, engineer boots, motorcycle boots and six- and eight-eyelet work boots. Suggested retail price points range from \$80.00 to \$100.00 for this category.

Hikers. The Company's Hiker group consists of a single category of boots and demi-boots that include many comfort and technical performance features that distinguish this footwear as Hikers. The Company markets this footwear primarily on the basis of style and comfort rather than on technical performance. However, many of the technical performance features in the Hikers contribute to the level of comfort this footwear provides. Outsoles generally consist of molded and contoured hardened rubber. Many designs may include gusseted tongues to prevent penetration of water and debris, cushioned mid-soles, motion control devices such as heel cups, water-resistant or water-proof construction and materials and heavier, more durable hardware such as metal D-rings instead of eyelets. Uppers are generally constructed of heavily oiled newbuck and full-grain leathers. Suggested retail price points range from \$55.00 to \$100.00 for this category.

Sandalized Footwear. The Company's Sandalized footwear features open-toe

and open-side constructions consistent with the Company's offering in the Sport Utility, Classics, Skechers Collection and Skechers Sport categories of footwear. Such footwear includes fisherman's sandals, shower sandals, beach sandals, slides, comfort-oriented land sandals and technically-inspired water sport sandals. Sandalized footwear includes both leather and synthetic constructions and may feature suede footbeds with form-fitting mid-soles. The Company typically delivers its Sandalized footwear to retailers from February to August. Suggested retail price points range from \$20.00 to \$60.00 for this category.

Women's Footwear

The Company began emphasizing the marketing and product offerings of its women's footwear line in early 1996. The women's product offerings are organized in four major groups: (i) Casuals,

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(ii) Active Street Footwear, (iii) Utility Boots and (iv) Sandalized Footwear. Skechers women's line differs from the men's product offerings in that it is more seasonal and fashion oriented. The Company builds all of its women's shoes with lasts and molds specifically designed for women, which management believes distinguishes the Company from most athletic shoe companies and certain unisex casual footwear companies. The women's line includes a broader array of construction for bottoms which include several different heights. During 1998, the Company marketed approximately 320 styles of women's footwear, generally ranging in size from 5 to 11.

Casuals. The Company's Casuals footwear group includes two categories, Sport Utility and Classics. Sport Utility footwear includes many of the same design features as the Sport Utility category for men, but vary more widely in the fabrication and coloration of uppers, as well as the height and construction of the outsoles. Outsoles may feature raised bottoms with varying heel heights and may be constructed of ethyl vinyl acetate ("EVA"). Suggested retail price points range from \$40.00 to \$55.00 for this category.

The Classics category includes comfort-oriented design and performance features much like the men's Classics category. Boots and shoes in this category of women's footwear are offered in a broader array of upper fabrications and colorations than men's Classics. While these shoes and boots do not feature higher heels, outsole constructions may be thicker or higher than the men's Classics category. In addition to oxfords, wingtips, monkstraps, demi-boots and boots similar to those featured in the men's Classics category, the women's Classics category also features mary janes. Suggested retail price points range from \$55.00 to \$70.00 for this category.

Active Street Footwear. The Company's Active Street footwear group includes Street Sneakers and Skechers Sport. Women's Street Sneakers differ from the men's Street Sneakers in four significant ways: (i) variations in outsole configuration, (ii) emphasis on combinations of high-tech and synthetic fabrics, (iii) emphasis on canvas and (iv) the absence of a competitive skate shoe product for women. The women's Street Sneakers are offered in four basic outsole configurations: (i) low profile sneakers such as the Street Cleat, (ii) high profile sneakers such as the Womper, (iii) hyper-wedges such as the Blaster and (iv) platform sneakers such as the Fatsoles. The women's line offers a broader array of coloration and fabrication of uppers and typically emphasizes combinations of different fabrications to make a more bold lifestyle statement than the men's Street Sneaker collection.

Within the Street Sneaker category, the women's line places particular emphasis on canvas uppers. These canvas sneakers are available in a broad array of vivid colors; however, white dominates the canvas sneaker style in sales. Management believes the fuller color palette in canvas is necessary to allow retailers to merchandise these styles effectively and to properly convey the Skechers brand image to the consumer. Canvas Street Sneakers carry suggested retail price points of \$30.00 to \$45.00 for this category. Management believes that these affordable price points contribute to the attractiveness of the more colorful Canvas Street Sneakers as impulse purchases. Suggested retail price

points for Street Sneakers, other than in canvas, range from \$40.00 to \$60.00 for this category.

The Skechers Sport Category for women differs from the Skechers Sport Category for men primarily in the variety of colors and fabrics comprising the uppers. While some height variation occurs in the outsoles, such variation is not as frequent, severe or diverse as in the case of the Street Sneakers. Suggested retail price points range from \$40.00 to \$60.00 for this category.

Utility Boots. The women's Utility Boot group differs from the men's Utility Boot group in three primary ways: (i) outsoles may be raised and may have higher heels, (ii) uppers may be constructed of softer leather such as oiled newbuck and (iii) the Utility Boot category for women includes women's hikers which is not yet significant enough to warrant its own group. Suggested retail price points for this group range from \$40.00 to \$85.00 for this category.

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Sandalized Footwear. Women's Sandalized Footwear consists of three categories: (i) Surf and Sand Sandals, (ii) Active Lifestyle Sandals and (iii) Comfort Sandals. Surf and Sand Sandals feature raised outsoles with wedge or platform configurations and are often constructed from EVA. Footbeds emphasize visual design patterns and colorations and may be constructed from synthetics such as Neoprene. Active Lifestyle Sandals are opened-up interpretations of many of the styles offered in the women's Street Sneaker category. Active Lifestyle Sandals include the four outsole configurations featured on the Street Cleat, Womper, Blaster and Fatsoles. Uppers typically feature synthetic fabrications. Comfort Sandals are opened-up interpretations of the women's Classics category. Uppers are constructed of similar leathers as the Classics Category with contoured, cushioned suede footbeds. Suggested retail price points range from \$25.00 to \$55.00 for this category.

Children's Footwear

In early 1996, the Company substantially increased its product offerings and marketing focus on its children's footwear line and during 1998 offered approximately 220 styles of Skechers footwear designed for infants, young boys and girls and pre-teens, ranging in sizes from infant size 3 to boys size 6. The children's line features a range of products including boots, shoes and sneakers that reflect the Skechers level of design and quality. The Skechers children's line is comprised primarily of shoes that are designed like their adult counterparts but in "takedown" versions, so that the younger set can wear the same popular styles as their older siblings and schoolmates. This "takedown" strategy maintains the integrity of the product in the premium leathers, hardware and outsoles without the attendant costs involved in designing and developing new products. In addition, the Company also adapts current fashion from the Company's men's and women's lines by modifying designs and choosing colors and materials that are more suitable to the playful image Skechers has established in the children's footwear market. The Company recently launched its Skechers Lights category, which is a new line of lighted footwear combining sequencing patterns and lights in the outsole and other areas of the shoes. Skechers' children's footwear is currently offered at domestic retail prices ranging from \$25.00 to \$50.00 per pair.

PRODUCT DESIGN AND DEVELOPMENT

The Company's principal goal in product design is to generate new and exciting footwear with contemporary and progressive styles and comfort enhancing performance features. The Company designs most new styles to be fashionable and marketable to the 12 to 25 year old consumer, while appealing to the broader 5 to 40 year old age consumer, with the goal that the majority of the styles will become basic. The sale of basic products funds the Company's design efforts and allows it to introduce more progressive styles which improve brand recognition and enhance the Company's image as being in the forefront of emerging lifestyle trends. While many of the Company's shoes have performance features, the Company generally does not position its shoes in the marketplace as technical performance shoes.

The footwear design process typically begins about nine months before the start of a season. Skechers offers a spring and fall line and typically introduces new styles in its existing lines every 30 to 60 days to keep current with emerging trends. Skechers' products are designed and developed by the Company's in-house staff. The Company also utilizes outside design firms on an item-specific basis to supplement its design efforts. Separate design teams focus on each of the men's, women's and children's categories, reporting to the Company's Vice President, Design, who has over nine years' experience in footwear design. The design process is extremely collaborative; members of the design staff meet weekly with the heads of retail and merchandising, sales and production and sourcing to further refine the Company's products in order to meet the particular needs of the Company's markets.

Management believes that its product success is related in large part to its ability to recognize trends in the footwear markets and to design products which anticipate and accommodate consumers' ever-evolving preferences. The Company strives to analyze, interpret and translate current and

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emerging lifestyle trends affecting today's youthful culture into progressive footwear styles. Lifestyle trend information is compiled by Skechers' designers through various methods designed to monitor changes in culture and society, including (i) review and analysis of modern music, television, cinema, clothing, alternative sports and other trend-setting media, (ii) travel to domestic and international fashion markets to identify and confirm current trends, (iii) consultation with the Company's retail customers for information on current retail selling trends, (iv) participation in major footwear trade shows to stay abreast of popular brands, fashions and styles and (v) subscription to various fashion and color information services. In addition, a key component of Skechers' design philosophy is to continually reinterpret both its basic and current successful styles in the Skechers image. In the Company's experience, reinterpreted styles often sell well due to a combination of a level of familiarity with the target customer group and new design features which create renewed interest. The Company closely monitors sales to key retail customers, as well as Skechers' own retail stores, to identify current popular styles which may be subject to reinterpretation.

After the design team arrives at a consensus regarding the fashion themes for the coming season, the group then translates these themes into Skechers products. These interpretations include variations in product color, material structure and decoration, which are arrived at after close consultation with the Company's production department. Prototype blueprints and specifications are created and forwarded to the Company's prototype manufacturers located in Taiwan, which then forward design prototypes back to the Company's domestic design team approximately two to four weeks after initial receipt. New design concepts are often also reviewed by the Company's major retail customers. This customer input not only allows the Company to measure consumer reaction to the Company's latest designs, but also affords the Company an opportunity to foster deeper and more collaborative relationships with these customers. The Company's design team can easily and quickly modify and refine a design based on this development input.

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

MARKETING

The Company's marketing focus is to maintain and enhance recognition of the Skechers brand name as a casual, active youthful brand that stands for quality, comfort and design innovation. Senior management is directly involved in shaping the Company's image and its advertising and promotional activities. The conception, development and implementation of most aspects of Skechers men's, women's and children's marketing efforts are overseen by a six person committee headed by Robert and Michael Greenberg. Towards this end, the Company endeavors to spend between 8.0% and 10% of net sales in the marketing of Skechers footwear through an integrated effort of advertising, promotions, public relations, trade shows and other marketing efforts, which the Company believes substantially heightens brand awareness.

Advertising. Substantially all of the Company's advertising is conceived and designed by Skechers' in-house staff. By retaining its advertising functions in-house, management believes that the Company is able to maintain a greater degree of control over both the creative process and the

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integrity of the Skechers brand image, while realizing substantial cost savings compared to using outside agencies.

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

The Company uses a variety of media for its national advertising. Print efforts are represented by one or two page collage features in popular fashion and lifestyle consumer publications that appeal to the Company's target customer group, such as Spin, Details, Seventeen, GQ, Vibe, Rolling Stone, Vogue and many others. The Company utilizes experienced graphic designers and styling teams that work closely with professional fashion photographers to present the Skechers image in a visually stimulating way. Skechers' progressive television advertisements are primarily created in-house and air frequently on top television shows on the major networks and on cable channels including MTV, Nickelodeon, Comedy Central, ESPN and BET. Different advertisements are created for each of the 5 to 9, 10 to 24 and 25 to 35 year old consumer groups. The Company's in-house media buyer strategically selects during which program and in which geographic area certain Skechers commercials will air in order to reach the appropriate target audience. Radio spots often feature national celebrities and are aired during national syndicated radio shows to appeal to a wider audience.

The Company also participates with its retail customers in cooperative advertising programs intended to take the brand awareness created by the national print advertising and channel it to local retailers where consumers can buy the Company's products. This advertising includes local advertising on radio, television and newspaper, as well as Company participation in major catalogs for retailers such as Macy's, Nordstrom, Bloomingdale's and Victoria's Secret. The Company's co-op efforts are intended to maximize advertising resources by having its retailers share in the cost of promoting the Company's brands. Also, the Company believes that co-op advertising encourages the retailer to merchandise the brands properly and sell them aggressively on the sales floor.

Promotions. Skechers' in-house promotions department is responsible for building national brand name recognition. Teaming up with national retailers and radio stations, the promotions department is responsible for cross promotions, which help draw customers to retail store locations. This department also sponsors alternative sporting and entertainment events and coordinates a group of extreme sport athletes such as skateboarders who make promotional appearances, wear the Company's footwear exclusively and help increase overall consumer awareness of the Skechers brand.

Public Relations. The Company's in-house public relations department is responsible for increasing Skechers' media exposure. The department communicates the Skechers image to the public and news media through the active solicitation of fashion editorial space, arranging interviews with key Company personnel and coordinating local publicity and special events programs for the Company, including celebrity appearances and fashion shows. With its strategy tied to promoting the newest styles produced by the product development team, Skechers' products are often featured in fashion and pop culture magazines and on a select group of films and popular television shows. For example, Skechers shoes have been prominently displayed on the television series *Dharma & Greg* and referenced on the recently released film *10 Things I Hate About You*.

Trade Shows. To showcase the Skechers product to footwear buyers, the Company exhibits at more than 20 trade shows worldwide, including all leading industry shows. The Company prides itself on having innovative and dynamic exhibits on the show floor. Designed by an in-house

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architect, the Company's state-of-the-art trade show exhibits feature the latest products and provide a stage for Skechers' internally developed music-video-style dance and stage shows featuring progressive music and nightclub lighting.

Other. The Company's in-house display merchandising department supports retailers and distributors by developing point-of-purchase advertising to further promote its products in stores and to leverage the brand recognition at the retail level. This group is supplemented by several part-time employees who act as field service representatives. This department coordinates with the Company's sales department to ensure better sell-through at the retail level. Company representatives communicate with and visit their customers on a regular basis to aid in the proper visual display of Skechers merchandise and to distribute and display such point-of-purchase items as signage, packaging, displays, counter cards, banners and other visual merchandising displays. These materials mirror the look and feel of the national print advertising in order to reinforce brand image at the point-of-purchase. Management believes these efforts help stimulate impulse sales and repeat purchases.

Certain of the Company's retail accounts feature "in-store shop" formats in which the Company provides fixtures, signage and visual merchandise assistance in a dedicated floor space within the store. The design of the shops utilizes the distinctive Skechers advertising to promote brand recognition and differentiate Skechers' presence in the store from that of its competition. The installation of these shops enables the Company to establish premium locations within the retailers and management believes it aids in increased sell-through and higher maintained margins for the Company's customers.

In August 1998, the Company launched its initial product mail-order catalog. This full-color brochure was sent to more than 500,000 households, including approximately 350,000 names on the Company's own mailing list. Two subsequent catalog mailings have been completed to more than 900,000 households, during which time the Company's own mailing list has grown to more than 600,000 names. The current mail-order catalog includes approximately 100 styles of the Company's men's and women's line. The catalog reflects the Skechers image featuring colorful, eye-catching layouts and younger models. The catalog was created and produced in-house by the Company's designers, with the assistance of professional fashion photographers and production artists. The catalog lists a broad assortment of Skechers footwear and affords customers the ability to order products telephonically or via mail. The catalog references a toll-free Skechers number to provide customer assistance, including the location of the Skechers' retail stores and selected other retail locations offering the Company's products.

The Company also promotes its brand image through its website on the World Wide Web to customers who directly access the Internet. This website currently enables the Company to present information on Skechers' history, products and store locations to consumers. The website is interactive, affording customers the ability to directly order products on the Internet and to allow the Company

to receive and respond directly to customer feedback. The website features the Skechers current mail-order catalog, photos, interviews and information on Company-sponsored events and associated content designed to attract visitors to the site. The Company's website and mail-order catalog are intended to enhance the Skechers brand without the associated costs of advertising.

SALES

The Company seeks to enhance its brand image by controlling the distribution channels for its products based on criteria which include the image of the retailer and its ability to effectively promote and display the Company's products. In addition, management has implemented a strategy of controlling the growth of the distribution channels through which the Company's products will be sold in order to protect the Skechers brand name, properly service customer accounts and better manage the growth of the business. The Company has limited distribution of its products to those retailers it believes can best support the Skechers brand name in the market.

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To accomplish this, the Company has continued to broaden its product line in an effort to reach a larger consumer base and to improve and enhance its customer service. The Company intends to continue to leverage its reputation for quality products and its relationships with retailers through, among other things, the introduction of new styles in its existing and in also categories of footwear. Also, the Company believes it enhances its position with retailers through its in-stock inventory program. This program increases the availability of Skechers' best-selling products, which management believes has contributed to more consistent product flow to its retail customers and an increased ability to respond to reorder demand.

The Company currently has 70 in-house sales and two independent sales representatives. The Company also has 13 in-house customer service employees. The sales force is segregated into men's, women's and children's divisions. The men's and women's division each has a western, midwestern and eastern regional sales manager, while the children's division is headed by a children's national sales manager. Each of these sales managers reports to the Company's Vice President, Sales, who has over 15 years of experience in the footwear industry. Each of the sales staff and independent sales representatives are compensated on a salary plus commission basis; none of the representatives sell competitive products. Senior management, specifically Michael Greenberg, is actively involved in selling to and maintaining relationships with Skechers' major retail accounts. For the year ended December 31, 1998 the top five sales persons accounted for 39.8% of the Company's net sales. One of these salespersons generated 17.9% of the Company's net sales for the year ended December 31, 1998.

The Company's primary customers are department stores and specialty retailers. During 1998, Skechers sold to more than 2,200 retail accounts representing in excess of 10,000 storefronts, including Nordstrom, Macy's, Dillard's, Robinson's-May and JC Penney and specialty retailers such as Genesco's Journeys and Jarman chains, The Venator Group's Foot Locker and Lady Foot Locker chains, Pacific Sunwear and Footaction U.S.A. During the year ended December 31, 1998, the Company's net sales to its five largest customers accounted for approximately 34.8% of total net sales. For the year ended December 31, 1998, The Venator Group represented 11.8% of the Company's net sales. Other than the foregoing, no one customer accounted for 10.0% or more of the Company's net sales for such period.

The Company is committed to achieving customer satisfaction and to building a loyal customer base by providing a high level of knowledgeable, attentive and personalized customer service. The Company's sales and field service personnel coordinate with retail customers to determine the inventory level and product mix that should be carried in each store in an effort to help retail sell-through and enhance the customer's product margin. Such information is then used as a basis for developing sales projections and product needs for such customers. In addition, Skechers' sales personnel work closely with their

customers in monitoring their inventory levels, which assists the Company with scheduling production. The Company's field service representatives coordinate with the sales department to work with the retailer to ensure that the Company's products are appropriately displayed. Further support is provided through the availability of EDI and co-op advertising. See "-- Distribution." Management believes that limiting product distribution to the appropriate accounts and closely working with those accounts helps the Company to reduce its own inventory markdowns and customer returns and allowances, while maintaining the proper showcase for the Skechers brand name and product.

SOURCING

Skechers products are produced by independent contract manufacturers primarily located in China and to a lesser extent, in Macau, Korea, Mexico, Romania, Italy, Portugal and Taiwan. For the year ended December 31, 1998, 96.2% of the Company's products were manufactured in China. The Company does not own or operate any manufacturing facilities. Management believes the use of independent manufacturers increases its production flexibility and capacity while at the same time substantially reducing capital expenditures and avoiding the costs of managing a large production

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work force. While the Company has long standing relationships with many of its manufacturers and believes its relationships to be good, there are no long-term contracts between the Company and any of its manufacturers.

To safeguard product quality and consistency, the Company oversees the key aspects of the production process. Monitoring is performed domestically by the Company's in-house production department and in Asia through a 55-person staff working in China and out of the Company's office in Taiwan. Management believes the Company's Asian presence allows Skechers to negotiate supplier and manufacturer arrangements more effectively and ensure timely delivery of finished footwear. In addition, the Company requires its manufacturers to certify that neither convict, forced, indentured labor (as defined under U.S. law) nor child labor (as defined by the manufacturer's country) was 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.

The Company oversees the key phases of production from initial prototype manufacture through initial production runs to final manufacture. Manufacturers are selected in large part on the basis of the Company's prior experience with the manufacturer and the amount of available production capacity. The Company attempts to monitor its selection of independent factories to ensure that no one manufacturer is responsible for a disproportionate amount of the Company's merchandise. In addition, the Company seeks to use, whenever possible, manufacturers that have previously produced the Company's footwear, which the Company believes enhances continuity and quality while controlling production costs. The Company generally limits product orders to 30.0% or less of that manufacturer's total production at any one period of time. In addition, the Company sources product for styles that account for a significant percentage of the Company's net sales from at least three different manufacturers. For the year ended December 31, 1998, the top four manufacturers of the Company's products accounted for 15.4%, 14.2%, 12.1% and 10.4% of total purchases, respectively. Other than the foregoing, no one manufacturer accounted for 10.0% or more of the Company's total purchases for such period. To date, the Company has not experienced difficulty in obtaining manufacturing services.

Management believes that quality control is an important and effective means of maintaining the quality and reputation of its products. The Company's quality control program is designed to ensure that finished goods not only meet with Company established design specifications, but also that all goods bearing its trademarks meet the Company's standards for quality. Quality control personnel perform an array of inspection procedures at stages of the production process, including examination and testing of (i) prototypes of key products

prior to manufacture, (ii) samples and materials prior to production and (iii) final products prior to shipment. The Company employees are on-site at each of Skechers' major manufacturers to oversee in person key phases of production. The Company employees and agents also make other unannounced visits to the manufacturing sites to further monitor compliance with Skechers' manufacturing specifications.

Skechers' on-site quality control program is also designed to provide greater flexibility in the design and production process. Since Skechers reviews many new design concepts with major retail customers, it is able to receive direct feedback as to what changes, if any, in the design specification of a particular style should be made prior to initial production runs. This input often can be quickly translated into design modifications which are directed in Asia by the Company's on-site staff. As a result, the Company is more responsive to customer needs.

The Company maintains an in-stock position for selected styles of footwear in order to minimize the time necessary to fill customer orders. In order to maintain an in-stock position, the Company places orders for selected footwear with its manufacturers prior to the time the Company receives customers' orders for such footwear. In order to reduce the risk of overstocking, the Company seeks to assess demand for its products by soliciting input from its customers and monitoring retail sell-through. In addition, the Company analyzes historical and current sales and market data to develop internal product quantity forecasts which helps reduce inventory risks.

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SKECHERS' RETAIL STORES

The Company's retail stores are an important component of its product marketing and development strategies and provide distinctive environments in which to merchandise and sell the Skechers product line. The Company's own retail operations are overseen by the Company's Vice President, Retail and Merchandising, who has approximately 20 years of experience in retail footwear. The Company's retail stores consist of free-standing and conventional mall concept stores and factory and warehouse outlet stores. For the year ended December 31, 1998, approximately 7.4% of net sales were generated by the Company's retail stores.

Concept Stores

The Company's concept stores serve as a showcase for the Company's products and are an integral part of the Company's strategy for building the Skechers brand. The Company's strategy is to focus on opening concept stores primarily in marquee sites in key urban, high-traffic, visible locations in major metropolitan cities throughout the United States in an effort to enhance national brand recognition. Retail locations are generally chosen to generate maximum marketing value for the Skechers brand name through signage and store front presentation. These locations include concept stores in Manhattan's Times Square and Santa Monica's Third Street Promenade. The Company believes that as a result of its ability to control the visual presentation and product assortment in its concept stores, these stores help build brand awareness and introduce consumers to a broad range of Skechers products. Also, the concept stores provide rapid product feedback. Management believes that product sell-through information derived from the Company's concept stores allows the Company's sales, merchandising and production staff to respond to market changes and new product introductions. Such responses serve to augment sales and limit the Company's inventory markdowns and customer returns and allowances.

As of March 31, 1999, Skechers operated 22 concept stores, 13 of which were located in California, five in New York, two in New Jersey and one in each of Massachusetts and Florida. The concept stores are primarily located in free-standing street locations and major shopping malls. The stores are typically designed to create a distinctive Skechers look and feel and enhance customer association of the Skechers brand with current youthful lifestyle trends and styles. The concept stores feature modern music and lighting and present an open floor design to allow customers to readily view the merchandise on display. In December 1998, the Company opened a showroom in New York City's SoHo district above its concept store. The showroom displays the Company's

current and upcoming men's, women's and children's lines in their entirety to customers. The standard Skechers concept store is open seven days a week for an average of eight to 11 hours per day, has two or three employees in the store during business hours, and ranges in selling square footage from approximately 1,400 to 4,400.

The Company opened 13 new concept stores during 1998, two new concept stores during the three months ended March 31, 1999 and plans to open at least two new concept stores in the remainder of 1999. The Company's new concept store prototype is approximately 2,500 square feet, although in certain selected markets the Company may open larger or smaller stores. In developing its concept store opening plan, the Company has identified top geographic markets in the larger metropolitan areas of the United States. In selecting a specific site, the Company evaluates the proposed sites' traffic pattern, co-tenancies, average sales per square foot achieved by neighboring concept stores, lease economics and other factors considered important within the specific location.

The Company seeks to instill enthusiasm and dedication in its concept store management personnel and sales associates through incentive programs and regular communication with store personnel. Sales associates receive commissions on sales with a guaranteed minimum compensation. Concept store managers receive base compensation plus incentive compensation based on sales.

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The Company has well-established concept store operating policies and procedures and utilizes an in-store training regimen for all new store employees. Merchandise presentation instructions and detailed product descriptions also are provided to sales associates to enable them to gain familiarity with Skechers product offerings. The Company offers Skechers' sales associates a discount on Skechers merchandise to encourage enthusiasm for the product and Company loyalty.

Factory and Warehouse Outlet Stores

As of March 31, 1999, the Company also operated 15 factory and warehouse outlet stores, nine of which were located in California, two in New York and one in each of Arizona, Massachusetts, Nevada and Hawaii. The factory outlet stores are generally located in manufacturers' outlet centers throughout the country. The Company's factory outlet stores have enabled it to increase sales in certain geographic markets where Skechers' products were not previously available and to consumers who favor value-oriented retailers. The outlets provide opportunities for the Company to sell discontinued and excess merchandise, thereby reducing the need to sell such merchandise to discounters at excessively low prices. The Company's free-standing warehouse outlet stores enable it to liquidate other excess merchandise, discontinued lines and odd sizes. The Company strives to geographically position its factory and warehouse outlet stores to minimize potential conflicts with the Company's retail customers. The standard Skechers factory and warehouse outlet store is open seven days a week for an average of eight to 11 hours per day, has two or three employees in the store during business hours and ranges in selling square footage from approximately 1,800 to 11,000. Inventory in these stores is supplemented by certain first-line styles sold at full retail generally at price points of \$60.00 or lower. The Company opened 10 new factory and warehouse outlet stores during 1998 and plans to open at least four new factory and warehouse outlet stores in the remainder of 1999.

In addition, the Company's newly launched mail-order catalog and website act as sales vehicles. Management believes that these new distribution channels will not generate material growth for the Company in the near term; however, management believes that they may present attractive long-term opportunities with minimal near-term costs.

INTERNATIONAL OPERATIONS

Although the Company's primary focus is on the domestic market, the Company

presently markets its product in countries and territories in Europe, Asia and selected other foreign regions. Skechers derives revenues and earnings from outside the United States from two principal sources: (i) sales of Skechers footwear directly to foreign distributors who distribute such footwear to department stores and specialty retail stores and (ii) to a lesser extent, royalties from licensees who manufacture and distribute Skechers products outside the United States. For the year ended December 31, 1998, approximately 9.3% of the Company's net sales was derived from its international operations.

Management believes that international distribution of Skechers products may represent a significant opportunity to increase revenue and profits. Although the Company is in the early stages of its international expansion, Skechers products are currently sold in over 120 countries and territories. The Company's goal is to increase international sales through foreign distributors by heightening the Company's international marketing presence in those countries. In 1998, the Company launched its first major international advertising campaign which is designed to establish Skechers as a global brand synonymous with casual shoes. The Company is exploring selling directly to retailers in certain European countries in the near future. In addition, the Company is exploring selectively opening flagship retail stores internationally on its own or through joint ventures.

DISTRIBUTION

The Company believes that strong distribution support is a critical factor in the Company's operations. Following manufacture, the Company's products are packaged in shoe boxes bearing bar codes and generally either shipped to the Company's approximately 700,000 square feet of leased distribution centers located in Ontario, California, or shipped directly from the manufacturer to Skechers' international customers. Upon receipt at the central distribution centers, merchandise is inspected and recorded in the Company's management information system and packaged according to customers' orders for delivery. Merchandise is shipped to the customer by whatever means the customer requests, which is usually by common carrier. The central distribution centers have multi-access docks, enabling the Company to receive and ship simultaneously and to pack separate trailers for shipments to different customers at the same time. The Company has an EDI system to which some of the Company's larger customers are linked. This system allows these customers to automatically place orders with the Company, thereby eliminating the time involved in transmitting and inputting orders, and includes direct billing and shipping information.

POTENTIAL LICENSING ARRANGEMENTS

As part of its growth strategy, the Company plans to continue to enter into licensing agreements with respect to certain products on terms and with parties management believes will provide more effective manufacturing, distribution or marketing of such products than could be achieved in-house. Management believes that selective licensing of the Skechers brand name to non-footwear-related manufacturers may broaden and enhance the Skechers image without requiring significant capital investments or the incurrence of significant incremental operating expenses by the Company. In evaluating a licensing decision, the Company will consider various factors, including the potential profit to be earned and the capital and management resources available to the Company at such time. The Company intends to maintain substantial control over the design, manufacturing specifications, advertising and distribution of any licensed products and to maintain a policy of evaluating any future licensing arrangements to ensure consistent representation of the Skechers image.

The Company currently has licensing agreements internationally for apparel with Life Gear Corporation in Japan and for footwear with Pentland Group PLC in the United Kingdom. The Company also has a licensing agreement domestically for bags, including backpacks, purses and waist packs, with Signal Products, Inc. for distribution to Federated Department Stores and JC Penney's. Management intends to be selective in pursuing licensing business. Management believes that revenues from licensing agreements will not be a material source of growth for

the Company in the near term; however, management believes that licensing arrangements may present attractive long-term opportunities with minimal near-term costs.

MANAGEMENT INFORMATION SYSTEMS

The Company recognizes the importance of advanced computerization in maintaining and improving its level of service, internal and external communication and overall competitive position. The Company has a computerized management information system that relies upon a Unix-based format with a local area network of terminals at the corporate offices to support management decision making, along with computers at the Company's distribution center and PC-based point-of-sale computers at each of its retail stores. These computers are connected via modem to the local area network at the Company's corporate offices. The Company's system provides, among other things, comprehensive order processing, production, accounting and management information for the marketing, selling, manufacturing, retailing and distribution functions of the Company's business. The Company has developed a sophisticated software program that enables the Company to track, among other things, orders, manufacturing schedules, inventory and sales of Skechers products. The program includes a centralized management information system which provides the

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various operating departments with integrated financial, sales, inventory and distribution related information.

As evidence of its continuing dedication to advanced computerization, the Company intends to install a new material handling system in its new distribution center. This new system is expected to enhance the Company's ability to monitor inventory levels and distribution activities at such site. The system, which is expected to cost approximately \$8.5 million, is expected to become operational in mid-2000. In addition, the Company is currently updating its EDI system to make it more responsive to customer needs.

BACKLOG

The Company generally receives the bulk of the orders for each of the spring and fall seasons a minimum of three months prior to the date the products are shipped to customers. At December 31, 1998, the Company's backlog was \$74.9 million, compared to \$65.8 million at December 31, 1997. To manage inventory risk, the Company estimates its production requirements and engages in certain other inventory management techniques. See "-- Sourcing." For a variety of reasons, including the timing of shipments, product mix of customer orders and the amount of in-season orders, backlog may not be a reliable measure of future sales for any succeeding period.

INTELLECTUAL PROPERTY RIGHTS

The Company owns and utilizes a variety of trademarks, including the Skechers trademark. As of March 31, 1999, the Company had approximately 21 registrations and approximately 54 pending applications for its trademarks in the United States. In addition, as of March 31, 1999, the Company had approximately 360 trademark registrations and applications in approximately 80 foreign countries. The Company also had 27 design patents issued in the United States and approximately 28 design patent applications pending in the United States as of March 31, 1999. The Company regards its trademarks and other intellectual property as valuable assets and believes that they have significant value in the marketing of its products. The Company vigorously protects its trademarks against infringement, including through the use of cease and desist letters, administrative proceedings and lawsuits.

The Company relies on trademark, copyright and trade secret protection, patents, non-disclosure agreements and licensing arrangements to establish, protect and enforce intellectual property rights in the design of its products.

In particular, the Company believes that its future success will depend in significant part on the Company's ability to maintain and protect the Skechers trademark. Despite the Company's efforts to safeguard and maintain its intellectual property rights, there can be no assurance that the Company will be successful in this regard. There can be no assurance that third parties will not assert intellectual property claims against the Company in the future. Furthermore, there can be no assurance that the Company's trademarks, products and promotional materials or other intellectual property rights do not or will not violate the intellectual property rights of others, that its intellectual property would be upheld if challenged or that the Company would, in such an event, not be prevented from using its trademarks or other intellectual property rights. Such claims, if proved, could materially and adversely affect the Company's 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 the Company's business, financial condition and results of operations. The Company has sued and has been sued by third parties in connection with certain matters regarding its trademarks and products, none of which has materially impaired the Company's ability to utilize its trademarks.

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 the Company continues

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to implement protective measures and intends to defend its intellectual property rights vigorously, there can be no assurance that these efforts will be successful or that the costs associated with protecting its rights in certain jurisdictions will not be prohibitive.

From time to time, the Company discovers products in the marketplace that are counterfeit reproductions of the Company's products or that otherwise infringe upon intellectual property rights held by the Company. There can be no assurance that actions taken by the Company to establish and protect its trademarks and other intellectual property rights will be adequate to prevent imitation of its products by others or to prevent others from seeking to block sales of the Company's products as violating trademarks and intellectual property rights. If the Company is unsuccessful in challenging a third party's products on the basis of infringement of its intellectual property rights, continued sales of such product by that or any other third party could adversely impact the Skechers brand, result in the shift of consumer preferences away from the Company and generally have a material adverse effect on the Company's business, financial condition and results of operations.

COMPETITION

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

Officer and Director

Philip Paccione.....	37	General Counsel and Secretary
John Quinn(1)(2).....	48	Nominated Director
Richard Siskind(1)(2).....	53	Nominated Director
Key Employees:		
Marvin Bernstein.....	52	Vice President, International Sales
Martin Brown.....	37	Vice President, Corporate Imaging
Greg Christopoulos.....	41	Vice President, Finance
Larry Clark.....	42	Vice President, Production and Sourcing
Lynda Cumming.....	39	Vice President, Allocation and Production
Paul Galliher.....	49	Vice President, Distribution
Kathy Garber.....	39	Vice President, Product Development
Jason Greenberg.....	29	Vice President, Visual Imaging
Jeffrey Greenberg.....	31	Vice President, Electronic Media
Scott Greenberg.....	38	Vice President, Visual Merchandising
Geric Johnson.....	47	Vice President, Direct Marketing
Michelle Kelchak.....	35	Vice President, Design
Mark Nason.....	37	Vice President, Retail and Merchandising
Ralph Vendetti.....	43	Vice President, Sales

</TABLE>

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

Robert Greenberg has been the Chairman of the Board and Chief Executive Officer of the Company since October 1993. From 1979 to 1992, Mr. Greenberg was the Chairman of the Board and President of L.A. Gear, an athletic and casual footwear and apparel company. Mr. Greenberg is a member of the Board of Directors of Stage II Apparel Corp. (AMEX:SA).

Michael Greenberg has been the President and a director of the Company since its inception in 1992 and from June 1992 to October 1993 he was Chairman of the Board. From 1989 to 1992, Mr. Greenberg was the National Sales Manager of L.A. Gear. Previously, from 1986 to 1989, he was the Regional Sales Manager of L.A. Gear for the West Coast, and from 1984 to 1986, he was an account representative for the West Coast at L.A. Gear.

David Weinberg has been Chief Financial Officer of the Company since October 1993 and Executive Vice President and a director since July 1998. From June 1989 to September 1992, Mr. Weinberg was Vice President, Credit/Collection at L.A. Gear.

Philip Paccione has been General Counsel since May 1998 and Secretary of the Company since July 1998. Before joining the Company and from June 1997, Mr. Paccione was an attorney at the law firm of Riordan & McKinzie, located in Los Angeles, and from May 1996 to June 1997 he was a sole

practitioner. Mr. Paccione also practiced law at the law firm of Gartner & Young from December 1994 to May 1996 and at the law firm of Kelley, Drye & Warren from June 1991 to December 1994.

John Quinn will become a director of the Company upon completion of the Offering. Since January 1995, Mr. Quinn has been a principal of the law firm of Riordan & McKinzie, a professional corporation, and before that, since 1987, he was a partner at the law firm of Kelley Drye & Warren. Mr. Quinn received his

J.D. from Albany Law School of Union University and an LL.M from New York University.

Richard Siskind will become a director of the Company upon the completion of the Offering. Mr. Siskind has been President, Chief Executive Officer and a director of Stage II Apparel Corp. (AMEX:SA) since May 1998. In 1991, Mr. Siskind founded R. Siskind & Company, a business which purchases brand name men's and women's apparel and accessories and redistributes those items to off-price retailers, and he is the sole shareholder, a director, Chief Executive Officer and President.

Marvin Bernstein has been the Vice President, International Sales of the Company since May 1997 and joined the Company in June 1993 as Vice President of Key Accounts. In December 1996, Mr. Bernstein became Vice President of International Sales and Licensing.

Martin Brown has been the Vice President, Corporate Imaging of the Company since June 1998, and joined the Company in March 1993 as Director of Special Projects. From October 1992 to 1993 Mr. Brown was an independent marketing consultant.

Greg Christopulos has been Vice President, Finance of the Company since September 1998. From January 1988 to August 1998, he was at KPMG LLP, where he had been a Senior Manager since July 1994. Mr. Christopulos is a Certified Public Accountant.

Larry Clark has been the Vice President, Production and Sourcing of the Company since March 1995 and joined the Company in August 1993 as Vice President of Product Development/ Production, International Division. From 1992 to 1993, Mr. Clark was Vice President, Operations at ALAD Inc., an apparel company, and from 1985 to 1992 he was Vice President of Research and Development at L.A. Gear. Prior to that, Mr. Clark was at Footlocker-Kinney Shoe Corp. for 10 years.

Lynda Cumming has been the Vice President, Allocation and Production of the Company since October 1992. From 1988 to 1992, Ms. Cumming was Vice President, Allocation at L.A. Gear.

Paul Galliher has been the Vice President, Distribution of the Company since May 1994. Prior to that, from August 1989, he was a Director of Distribution at L.A. Gear.

Kathy Garber has been the Vice President, Product Development of the Company since June 1998 and joined the Company in May 1993 as the Children's Product Manager. In September 1993, she became Product Development Manager and in June 1996 she became Director of Product Development. Ms. Garber was also a buyer at Robinson's-May.

Jason Greenberg has been the Vice President, Visual Imaging of the Company since January 1998 and from June 1992 to July 1998 he was a director. From June 1996 to January 1998, Mr. Greenberg was Advertising Director and from June 1994 he held a product development position at the Company.

Jeffrey Greenberg has been Vice President, Electronic Media of the Company since January 1998. From June 1992 to October 1993 Mr. Greenberg was Chief Financial Officer of the Company and from June 1992 to July 1998 he was Chief Operating Officer, Secretary and a director of the Company. From 1990 to 1992, he was involved in operations and marketing at L.A. Gear.

Scott Greenberg has been Vice President, Visual Merchandising of the Company since January 1998. Prior to that, from June 1994, he was in charge of International Marketing at the Company and held a position in marketing at L.A. Gear from 1986 to 1990. From January 1993 to May 1994 Mr. Greenberg owned and operated a restaurant.

Geric Johnson has been the Vice President, Direct Marketing of the Company since January 1998. From January 1990 until January 1998, Mr. Johnson held various positions with Frederick's of Hollywood, Inc., a retailer of women's

apparel. While at Frederick's of Hollywood he held the positions of President, Executive Vice President, General Manager and Vice President of Operations, and his responsibilities included running the day-to-day operations of the Mail Order Division.

Michelle Kelchak has been the Vice President, Design of the Company since June 1998. Ms. Kelchak joined the Company in July 1992 as Head Designer, and from January 1995 through May 1998 served as the Company's Design Director. Prior to joining the Company, Ms. Kelchak was a designer of men's, women's and children's footwear at L.A. Gear.

Mark Nason has been the Vice President, Retail and Merchandising of the Company since January 1998 and joined the Company in December 1993 as Director of Merchandising and Retail Development. From January 1981 through November 1993, Mr. Nason was employed at Track 'n Trail in various capacities, including General Merchandising Manager, Director of Visual Merchandising and Buyer.

Ralph Vendetti has been the Vice President, Sales of the Company since June 1997 and joined the Company in April 1995 as National Sales Manager. Before that, since 1989, Mr. Vendetti was with KEDS, a division of The Stride Rite Corporation, most recently as National Accounts Manager handling accounts such as Macy's, Jordan Marsh, Kinney, Bloomingdale's, Federated Corp. and Robinson's-May. Mr. Vendetti was also employed as a buyer for Macy's for 10 years.

As referenced above, a number of the Company's executive officers, directors and key employees were previously employed by L.A. Gear. During the time of their employment and thereafter, L.A. Gear was subject to many of the uncertainties applicable to the footwear industry. From its fiscal 1985 through mid-fiscal 1990, L.A. Gear experienced a period of rapid growth in revenues and earnings and thereafter periods of declining sales and losses. In late 1991, an outside investor group directed several significant changes in L.A. Gear's management and board of directors. In response to the changes, Robert Greenberg and a number of L.A. Gear's other members of management and employees, some of whom are currently employed by the Company, resigned from L.A. Gear in January 1992. Six years later, in January 1998, L.A. Gear filed for reorganization in bankruptcy court.

Upon the completion of the Offering, the Company's Board of Directors will consist of five members. The Board of Directors is divided into three classes. Class I Directors will serve until the annual meeting of stockholders in 2000 and thereafter for the terms of three years until their successors have been elected and qualified. Class II Directors will serve until the annual meeting of stockholders in 2001 and thereafter for terms of three years until their successors have been elected and qualified. Class III Directors will serve until the annual meeting of stockholders in 2002 and thereafter for terms of three years until their successors have been elected and qualified. Robert Greenberg is a Class I Director; Michael Greenberg and David Weinberg are Class II Directors; and Richard Siskind and John Quinn will be Class III Directors.

Directors are elected annually to serve until the next annual meeting of stockholders and until their successors are elected and qualified. The Company intends to pay its non-employee directors annual compensation of \$15,000 for their services paid quarterly beginning upon the completion of the Offering. In addition, non-employee directors will receive a fee of \$1,000 for each meeting attended. Non-employee directors attending any committee meeting will receive an additional fee of \$750 for each committee meeting attended, unless the committee meeting is held on the day of a meeting of the Board of Directors, in which case they will receive no additional compensation for the committee meeting. Non-employee directors will also be reimbursed for reasonable costs and expenses incurred for attending any director and committee meetings. Officers of the Company who are directors will not be paid any directors fees. Concurrently with the Offering, the Company will grant options to purchase _____ shares of Class A Common Stock under its Stock Option Plan to each of its non-employee directors at an exercise price equal to the initial public offering price. See

"-- Stock Options." Robert Greenberg is the father of Michael, Jason, Jeffrey and Scott

Greenberg; other than the foregoing, no family relationships exist between any of the directors or executive officers or key employees of the Company.

The Company's Board of Directors has established an Audit Committee and a Compensation Committee. The Audit Committee will be comprised of Richard Siskind and John Quinn and will be responsible for making recommendations concerning the engagement of independent certified public accountants, approving professional services provided by the independent certified public accountants and reviewing the adequacy of the Company's internal accounting controls. The Compensation Committee will be comprised of Messrs. Siskind and Quinn and will be responsible for recommending to the Board of Directors all officer salaries, management incentive programs and bonus payments.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Company did not have a Compensation Committee in 1998. Robert Greenberg and Michael Greenberg participated in deliberations concerning compensation of executive officers during 1998. Robert Greenberg serves on the board of directors and the compensation committee of Stage II Apparel Corp., whose President and Chief Executive Officer is Richard Siskind. Other than as described above, none of the executive officers of the Company has served on the board of directors or on the compensation committee of any other entity which had officers who served or will serve upon the closing of the Offering on the Company's Board of Directors or on the Company's Compensation Committee.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning the annual and long-term compensation earned by the Company's Chief Executive Officer and each of the other executive officers whose annual salary and bonus during 1997 and 1998 exceeded \$100,000 (the "Named Executive Officers").

<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION	LONG-TERM COMPENSATION							OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING LTIP PAYOUTS	ALL OTHER COMPENSATION
	ANNUAL COMPENSATION		AWARDS		PAYOUTS					
	YEAR	SALARY(\$)	BONUS(\$)			(\$)(1)	OPTIONS(#)			
Robert Greenberg.....	1998	--	2,079,943	26,518	--	--	5,038(3)			
Chairman of the Board and Chief Executive Officer	1997	--	1,560,877	14,518	--	--	6,649(3)			
Michael Greenberg.....	1998	300,000	--	11,744	--	1,013,769	11,859(4)			
President	1997	300,000	--	8,962	--	205,250	12,696(4)			
David Weinberg.....	1998	177,800	--	2,000	278,142	259,180	9,838(5)			
Executive Vice President and Chief Financial Officer	1997	175,000	--	4,800	--	136,830	12,626(5)			

</TABLE>

- (1) Represents the amount of an automobile lease for the benefit of each officer. With respect to Robert Greenberg and David Weinberg, excludes rental payments of \$12,000 and \$18,000, respectively, in 1998 and \$12,000 and \$18,000, respectively, in 1997 made by the Company directly to landlords regarding properties used primarily for corporate purposes but which are leased under the individuals' names.
- (2) With respect to 1997, represents payment of a bonus under the Company's 1996 Incentive Compensation Plan based on the increase of the Company's net sales from 1996 to 1997 and with respect to 1998, represents payment of a bonus based on the increase of the Company's net sales from 1996 to 1998. The bonuses for Michael Greenberg and David Weinberg under the Company's 1996 Incentive Compensation Plan were 0.3% and 0.2% in 1997, respectively, and 0.4% and 0.1% in 1998, respectively, of the increase in net sales volumes, respectively.
- (3) Represents health and life insurance payments for 1998 and 1997, respectively.
- (4) Represents health and life insurance payments of \$7,059 and \$9,601 and a \$4,800 and a \$3,095 contribution by the Company under the Company's 401(k) Plan for 1998 and 1997, respectively.

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- (5) Represents health and life insurance payments of \$5,038 and \$9,601 and a \$4,800 and a \$3,025 contribution by the Company under the Company's 401(k) Plan for 1998 and 1997, respectively.

Employment Agreements

Each of Messrs. Robert Greenberg, Michael Greenberg and David Weinberg will enter into an employment agreement with the Company, which will be effective as of the consummation of the Offering. The employment agreements will each have an initial term expiring three years from the closing of the Offering. Each officer will be entitled to an annual base salary, an annual bonus based on the Company's return on equity and a discretionary bonus as determined by the Compensation Committee of the Board of Directors. The Company and each officer are currently negotiating compensation, which will be determined prior to the closing of the Offering.

Each officer will agree not to compete, directly or indirectly, with the Company or disclose confidential information regarding the Company during the term of the agreement; provided that the officer may own less than 5% of the stock of a public company that competes with the Company. The employment agreements will entitle the executives to participate in the Company's Stock Option Plan and to receive certain insurance and other employee plans and benefits established by the Company for its executive employees.

If an officer's employment agreement is terminated by the officer without good reason, by mutual agreement, upon death of the officer, disability of the officer or for cause, which includes any dishonest act, commission of a crime, material injury to the Company's financial condition or business reputation or malfeasance, misfeasance or non-feasance, then the officer will receive, through the date of termination, (i) his base salary, (ii) any bonus due and (iii) any benefits under the agreement. If the officer is terminated without cause or the officer terminates the employment agreement for good reason, which includes the

Company's breach of a material term without cure or diminution of the officer's duties without his consent, then the officer will receive, for the remainder term of the agreement, (i) his base salary, (ii) performance-based bonus and discretionary bonus and (iii) any benefits under the agreement. The Company has agreed that upon any merger, reorganization, sale or disposition of assets or otherwise, the successor company will be required to assume each employment agreement.

STOCK OPTIONS

1998 Stock Option Plan

In January 1998, the Company's Board of Directors and stockholders adopted the 1998 Stock Option, Deferred Stock and Restricted Stock Plan (the "Stock Option Plan"), which provides for the grant of qualified incentive stock options ("ISOs") that meet the requirements of Section 422 of the Code, stock options not so qualified ("NQSOs"), deferred stock and restricted stock awards ("Grants"). The Stock Option Plan is administered by a committee of directors appointed by the Board of Directors (the "Committee"). ISOs may be granted to the officers and key employees of the Company or any of its subsidiaries. The exercise price for any ISO granted under the Stock Option Plan may not be less than 100% (or 110% in the case of ISOs granted to an employee who is deemed to own in excess of 10.0% of the outstanding Class A Common Stock) of the fair market value of the shares of Class A Common Stock at the time the option is granted. The exercise price for any NQSO granted under the Stock Option Plan may not be less than 85.0% of the fair market value of the shares of Class A Common Stock at the time the option is granted. The purpose of the Stock Option Plan is to provide a means of performance-based compensation in order to attract and retain qualified personnel and to provide an incentive to those whose job performance affects the Company.

The Stock Option Plan authorizes the grant of options to purchase, and Grants of, an aggregate of up to 5,215,154 shares of the Company's Class A Common Stock. The number of shares reserved for issuance under the Stock Option Plan is subject to anti-dilution provisions for stock splits, stock

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dividends and similar events. If an option granted under the Stock Option Plan expires or terminates, or a Grant is forfeited, the shares subject to any unexercised portion of such option or Grant will again become available for the issuance of further options or Grants under the Stock Option Plan.

Under the Stock Option Plan, the Company may make loans available to stock option holders, subject to the Committee's approval, in connection with the exercise of stock options granted under the Stock Option Plan. If shares of Class A Common Stock are pledged as collateral for such indebtedness, such shares may be returned to the Company in satisfaction of such indebtedness. If so returned, such shares shall again be available for issuance in connection with future stock options and Grants under the Stock Option Plan.

Unless previously terminated by the Board of Directors, no options or Grants may be granted under the Stock Option Plan after January 14, 2008.

Options granted under the Stock Option Plan will become exercisable according to the terms of the grant made by the Committee. Grants will be subject to the terms and restrictions of the award made by the Committee. The Committee has discretionary authority to select participants from among eligible persons and to determine at the time an option or Grant is granted and in the case of options, whether it is intended to be an ISO or a NQSO, and when and in what increments shares covered by the option may be purchased. Under current law, ISOs may not be granted to any individual who is not also an officer or employee of the Company or any subsidiary.

The exercise price of any option granted under the Stock Option Plan is

payable in full (i) in cash, (ii) by surrender of shares of the Company's Class A Common Stock already owned by the option holder having a market value equal to the aggregate exercise price of all shares to be purchased including, in the case of the exercise of NQSOs, restricted stock subject to a Grant under the Stock Option Plan, (iii) by cancellation of indebtedness owed by the Company to the optionholder, (iv) by a full recourse promissory note executed by the optionholder or (v) by any combination of the foregoing. The terms of any promissory note may be changed from time to time by the Board of Directors to comply with applicable Internal Revenue Service or Securities and Exchange Commission regulations or other relevant pronouncements.

The Board of Directors may from time to time revise or amend the Stock Option Plan and may suspend or discontinue it at any time. However, no such revision or amendment may impair the rights of any participant under any outstanding option or Grant without such participant's consent or may, without stockholder approval, increase the number of shares subject to the Stock Option Plan or decrease the exercise price of a stock option to less than 100% of fair market value on the date of grant (with the exception of adjustments resulting from changes in capitalization), materially modify the class of participants eligible to receive options or Grants under the Stock Option Plan, materially increase the benefits accruing to participants under the Stock Option Plan or extend the maximum option term under the Stock Option Plan.

In the event of a change of control, all stock options, restricted stock and deferred stock will fully vest and any indebtedness incurred in connection with the Stock Option Plan will be forgiven. A "change of control" occurs when (i) any person becomes the beneficial owner, directly or indirectly, of 50% or more of the combined voting power of the Company's securities, (ii) during any consecutive two-year period, individuals who at the beginning of such period constitute the Board, and any new director, with certain exceptions, who was approved by at least two-thirds of the directors still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the Board of Directors, (iii) in some circumstances, the stockholders approve a merger or consolidation, or (iv) the stockholders approve the complete liquidation, sale or disposition of all or substantially all of the Company's assets.

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Options to acquire 1,390,715 shares of Class A Common Stock are outstanding at an exercise price per share of \$2.78. Of this amount, 278,142 were granted to David Weinberg, of which 25.0% will vest on the consummation of the Offering, and the balance will vest over the next three years. In addition, options to purchase _____ shares of Class A Common Stock are expected to be granted to certain employees and non-employee directors of the Company on the effective date of the Offering at an exercise price equal to the initial public offering price, which options will vest ratably commencing one year from the date of this Prospectus in 20.0% increments for any employees and officers, and in 33.3% increments for non-employee directors. The options expire ten years from the date of grant.

OPTION GRANTS AND YEAR-END OPTION VALUES

The following table sets forth information concerning individual grants of stock options during 1998 to the Named Executive Officers:

OPTIONS GRANTED IN 1998

<TABLE>
<CAPTION>

NAME	INDIVIDUAL GRANTS		POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(4)			
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES(2)	EXERCISE OR BASE PRICE(\$/SH)(3)	EXPIRATION DATE	5%(\$)	10%(\$)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Robert Greenberg.....	--	--	--	--	--	--
Michael Greenberg....	--	--	--	--	--	--
David Weinberg.....	278,142	20.0%	2.78	1/14/08	486,283	1,232,337

(1) Upon completion of the Offering, 25% of the options immediately vest and the balance will vest over the next three years.

(2) The total number of options granted to the Company's employees during 1998 was 1,390,715.

(3) The exercise price per share of options granted represents the fair market value of the underlying shares of Common Stock on the date the options were granted.

(4) In order to comply with the rules of the Securities and Exchange Commission (the "Commission"), the Company is including the gains or "option spreads" that would exist for the respective options the Company granted to the Named Executive Officers. The Company calculated these gains by assuming an annual compound stock price appreciation of 5% and 10% from the date of the option grant until the termination date of the option. These gains do not represent the Company's estimate or projection of the future Class A Common Stock price.

The following table sets forth the outstanding stock options as of December 31, 1998 of the Named Executive Officers.

YEAR-END OPTION VALUES

<TABLE>
<CAPTION>

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1998(1)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1998(2)	
	EXERCISABLE(#)	UNEXERCISABLE(\$)	EXERCISABLE(\$)	UNEXERCISABLE(\$)
<S>	<C>	<C>	<C>	<C>
Robert Greenberg.....	--	--	--	--
Michael Greenberg.....	--	--	--	--
David Weinberg.....	--	278,142	--	484,000

(1) Upon the completion of the Offering, 25% of the options immediately vest and the balance will vest over the next three years.

(2) The value of the unexercised "in-the-money" options is based on the fair market value as of December 31, 1998, as determined by the Board of Directors, minus the exercise price, multiplied by the numbers of shares underlying the option.

1998 EMPLOYEE STOCK PURCHASE PLAN

The Company's 1998 Employee Stock Purchase Plan (the "1998 Purchase Plan") was adopted by the Board of Directors and the stockholders in July 1998. The 1998 Purchase Plan, which is intended to qualify under Section 423 of the Code, contains consecutive, overlapping, twelve month offering periods. Each offering period includes two six-month purchase periods. The offering periods generally start on the first trading day on or after January 1 and July 1 of each year. The initial offering period will commence on the date of the initial public offering and expire on December 31, 1999. A total of 2,781,415 shares of Class A Common Stock have been reserved for issuance under the 1998 Purchase Plan, plus annual increases equal to the lesser of (i) 1,000,000 shares, (ii) 1% of the outstanding shares of Class A Common Stock on such date, and (iii) such lesser amount as may be determined by the Board of Directors.

Employees are eligible to participate if they are customarily employed by the Company or any designated subsidiary for at least 35 hours per week and more than five months in any calendar year. However, any employee who (i) immediately after grant owns stock possessing 5.0% or more of the total combined voting power or value of all classes of the capital stock of the Company or (ii) whose rights to purchase stock under all employee stock purchase plans of the Company accrue at a rate which exceeds \$25,000 worth of stock for each calendar year may not be granted an option to purchase stock under the 1998 Purchase Plan.

The 1998 Purchase Plan permits participants to purchase Class A Common Stock through payroll deductions of up to 10.0% of the participant's "compensation." Compensation is defined as the participant's base straight time gross earnings, including commissions, payments for overtime, incentive bonuses and performance bonuses. Amounts deducted and accumulated by the participant are used to purchase shares of Class A Common Stock at the end of each purchase period. The price of stock purchased under the 1998 Purchase Plan is 85.0% of the lower of the fair market value of the Class A Common Stock at the beginning of the offering period or at the end of the purchase period. The maximum number of shares a participant may purchase during a single offering period is determined by dividing \$25,000 by the fair market value of a share of the Company's Class A Common Stock on the first day of the offering period. In the event the fair market value at the end of a purchase period is less than the fair market value at the beginning of the offering period, the participants will be withdrawn from the current offering period following exercise and automatically re-enrolled in a new offering period. Participants may end their participation at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with the Company.

Rights granted under the 1998 Purchase Plan are not transferable by a participant other than by will, the laws of descent and distribution, or as otherwise provided under the 1998 Purchase Plan.

The 1998 Purchase Plan provides that, in the event of a merger of the Company with or into another corporation or a sale of all or substantially all of the Company's assets, each outstanding option may be assumed or substituted for by the successor corporation. If the successor corporation refuses to assume or substitute for the outstanding options, the offering period then in progress will be shortened and a new purchase date will be set so that shares of Class A Common Stock are purchased with the participant's accumulated payroll deductions prior to the effective date of such transaction.

The Board of Directors has the authority to amend or terminate the 1998 Purchase Plan, except that no such action may adversely affect any outstanding rights to purchase stock under the 1998 Purchase Plan, provided that the Board of Directors may terminate an offering period on any exercise date if the Board determines that the termination of the 1998 Purchase Plan is in the best interests of the Company and its stockholders. Notwithstanding anything to the contrary, the Board of Directors may in its sole discretion amend the 1998 Purchase Plan to the extent necessary and desirable to avoid unfavorable financial accounting consequences by altering the purchase price for any offering period, shortening any offering period or allocating remaining shares among the participants. Unless

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sooner terminated by the Board of Directors, the 1998 Purchase Plan will terminate on June 30, 2008.

401(k) PLAN

The Company has in place a contributory retirement plan (the "401(k) Plan") for all full time employees age 21 and older with at least 12 months of service, which is designed to be tax deferred in accordance with the provisions of Section 401(k) of the Code. The 401(k) Plan provides that each participant may contribute up to 15.0% of his or her salary, and the Company may contribute to the participant's plan account at the end of each plan year a percentage of salary contributed by the participant. Under the 401(k) Plan, employees may elect to enroll on January 1 and July 1 of any plan year, provided that they have been employed for at least one year.

Subject to the rules for maintaining the tax status of the 401(k) Plan, an additional Company contribution may be made at the Company's discretion. Company matching contributions are made at the discretion of the Company. The Company's contributions to the 401(k) Plan in 1997 and 1998 were \$93,000 and \$242,000, respectively.

LIMITATIONS ON DIRECTORS' LIABILITIES AND INDEMNIFICATION

The Company's Certificate of Incorporation provides that, except to the extent prohibited by the DGCL, its directors shall not be personally liable to the Company or its stockholders for monetary damages for any breach of fiduciary duty as directors of the Company. Under Delaware law, the directors have fiduciary duties to the Company that are not eliminated by this provision of the Certificate of Incorporation and, in appropriate circumstances, equitable remedies such as injunctive or other forms of non-monetary relief will remain available. In addition, each director will continue to be subject to liability under Delaware law for breach of the director's duty of loyalty to the Company for acts or omissions that are found by a court of competent jurisdiction to be not in good faith or involving intentional misconduct, for knowing violations of law, for actions leading to improper personal benefit to the director and for payment of dividends or approval of stock repurchases or redemptions that are prohibited by Delaware law. This provision also does not affect the director's responsibilities under any other laws, such as the federal securities laws or state or federal environmental laws. In addition, the Company intends to maintain liability insurance for its officers and directors.

Section 145 of the DGCL permits the Company to, and the Certificate of Incorporation provides that the Company shall, indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was, or has agreed to become, a director or officer of the Company, or is or was serving, or has agreed to serve, at the request of the Company, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such

capacity, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom. Such right of indemnification shall inure to such individuals whether or not the claim asserted is based on matters that antedate the adoption of the Certificate of Incorporation. Such right of indemnification shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs and personal representatives of such a person. The indemnification provided by the Certificate of Incorporation shall not be deemed exclusive of any other rights that may be provided now or in the future under any provision currently in effect or hereafter adopted by the Certificate of Incorporation, by any agreement, by vote of stockholders, by resolution of directors, by provision of law or otherwise. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors of the Company pursuant to the foregoing provision, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange

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Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. Section 102(b)(7) of the DGCL permits a corporation to eliminate or limit the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL relating to unlawful dividends, stock purchases or redemptions or (iv) for any transaction from which the director derived an improper personal benefit. Section 102(b)(7) of the DGCL is designed, among other things, to encourage qualified individuals to serve as directors of Delaware corporations. The Company believes this provision will assist it in securing the services of qualified directors who are not employees of the Company. This provision has no effect on the availability of equitable remedies, such as injunction or rescission. If equitable remedies are found not to be available to stockholders in any particular case, stockholders may not have any effective remedy against actions taken by directors that constitute negligence or gross negligence.

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CERTAIN TRANSACTIONS

At December 31, 1996 and 1997, the Company had approximately \$13.3 million outstanding under an unsecured note payable to the Greenberg Family Trust of which Robert Greenberg, Chairman of the Board and Chief Executive Officer of the Company, and M. Susan Greenberg, Robert Greenberg's wife, are trustees. From January 1, 1997 through June 1998, the note bore interest at 8.0% per annum and was due upon demand after January 1, 1996. The Greenberg Family Trust agreed not to call the note prior to January 1, 1999. In June 1998, the Company issued a \$13.3 million term note under its credit facility with Heller Financial, Inc. to repay the indebtedness to the Greenberg Family Trust. In December 1998, in connection with the amendment and restatement of the Company's credit facility with Heller Financial, Inc., the note was refinanced by the Greenberg Family Trust into the Subordinated Note and the Unsubordinated Note. At December 31, 1998, the Company repaid approximately \$1.0 million due under the Unsubordinated Note. The Subordinated and Unsubordinated Notes each bear interest at the prime rate (7.75% at December 31, 1998) and are due on demand. The Greenberg Family Trust agreed not to call the Subordinated Note prior to January 2000. The Company recorded interest expense of approximately \$1.1 million, \$1.2 million and \$540,000 related to the notes during the years ended December 31, 1996, 1997 and 1998, respectively. The Company intends to use a portion of its net proceeds of the Offering to repay the notes owed to the Greenberg Family Trust.

The Company has periodically advanced to the Greenberg Family Trust all or a portion of the interest payments due on the indebtedness to the Greenberg Family Trust. During the years ended December 31, 1996, 1997 and 1998, the Company advanced approximately \$220,000, \$301,000 and \$540,000, of such interest payments, respectively. The Greenberg Family Trust intends to repay all outstanding amounts on or before the closing of the Offering.

During the years ended December 31, 1996, 1997 and 1998, the Company declared S Corporation distributions of \$112,000, \$3.2 million and \$7.9 million, respectively, of which the amounts indicated below were paid to the following holders of 5% or more of the Company's Class B Common Stock:

<TABLE>
<CAPTION>

YEAR ENDED DECEMBER 31,			
NAME OF STOCKHOLDER	1996	1997(1)	1998(2)
The Greenberg Family Trust.....	\$72,387	\$2,102,100	\$5,148,000
Michael Greenberg.....	11,136	323,400	792,000
Jason Greenberg(3).....	5,568	161,700	396,000
Jeffrey Greenberg(4).....	5,568	161,700	396,000
Joshua Greenberg.....	5,568	161,700	396,000
Jennifer Greenberg.....	5,568	161,700	396,000

(1) At January 1, 1998, the Company had distributions payable, bearing interest at 5% per annum, payable as follows: the Greenberg Family Trust -- \$227,209; Michael Greenberg -- \$75,211; Jason Greenberg -- \$56,526; Jeffrey Greenberg -- \$18,636; Joshua Greenberg -- \$55,478; and Jennifer Greenberg -- \$63,813.

(2) At December 31, 1998, the Company had distributions payable, bearing interest at 5% per annum, payable as follows: the Greenberg Family Trust -- \$264,522; Michael Greenberg -- \$108,463; Jason Greenberg -- \$63,715; Joshua Greenberg -- \$70,919; and Jennifer Greenberg -- \$72,273.

(3) Jason Greenberg was formerly a director of the Company.

(4) Jeffrey Greenberg was formerly the Chief Operating Officer and a director of the Company.

In January 1999, the Company declared the January 1999 Distribution consisting of its "Cross-Colours" trademark to the Greenberg Family Trust, Michael Greenberg, Jason Greenberg, Jeffrey Greenberg, Joshua Greenberg and Jennifer Greenberg. The Company valued this distribution at \$350,000. The remaining stockholders received cash in the aggregate amount of \$18,421. The following distributions were made to the holders of 5% or more of the Company's Class B Common Stock:

<TABLE>
<CAPTION>

NAME OF STOCKHOLDER	PERCENTAGE INTEREST IN THE TRADEMARK	VALUE OF PERCENTAGE INTEREST
The Greenberg Family Trust.....	68.3%	\$239,474
Michael Greenberg.....	10.5	36,842
Jason Greenberg.....	5.3	18,421

Jeffrey Greenberg.....	5.3	18,421
Joshua Greenberg.....	5.3	18,421
Jennifer Greenberg.....	5.3	18,421

</TABLE>

The stockholders who received an interest in the trademark sold all of their rights in the trademark to Stage II Apparel Corp., of which Robert Greenberg, Chairman of the Board and Chief Executive Officer of the Company, and Richard Siskind, a director of the Company, are each directors. In connection with the sale, the Greenberg Family Trust and Michael Greenberg received 140,000 shares and 20,000 shares of Stage II Apparel Corp., respectively, and Jeffrey Greenberg, Jason Greenberg, Joshua Greenberg and Jennifer Greenberg each received 10,000 shares. The Company currently licenses under a ten year license agreement the trademark from Stage II Apparel Corp. and pays a royalty of 1% of the wholesale price of all footwear sold by the Company with the trademark. For the years ended December 31, 1997 and 1998, the Company received royalty fees of \$0 and \$20,000 for the trademark "Cross Colours." The Company currently does not intend to materially exploit the "Cross Colours" trademark under the above-described license agreement.

As a result of a tax refund from the payment of taxes on the Company's earnings, the Company received a recovery of distributions from stockholders of \$600,000 for the year ended December 31, 1996.

In April 1999, the Company will make the April Tax Distribution consisting of the first installment of Federal income taxes payable on S Corporation earnings for 1998. It is estimated that the April Tax Distribution will be \$3.5 million and will be paid to the following holders of 5% or more of the Company's Class B Common Stock:

<TABLE>
<CAPTION>

NAME OF STOCKHOLDER	AMOUNT OF APRIL TAX DISTRIBUTION
-----	-----
<S>	<C>
The Greenberg Family Trust.....	\$ 66,000
Michael Greenberg.....	813,000
Jason Greenberg.....	521,600
Jeffrey Greenberg.....	597,400
Joshua Greenberg.....	519,600
Jennifer Greenberg.....	511,600

</TABLE>

The Company intends to use a portion of the net proceeds of the Offering to pay (i) the Final 1998 Distribution consisting of the final installment of Federal income taxes payable on S Corporation earnings for 1998, (ii) the Final Tax Distribution consisting of income taxes payable on S Corporation earnings from January 1, 1999 through the date of termination of the Company's S Corporation status and (iii) the Final S Corporation Distribution in an amount designed to constitute the substantial portion of the Company's remaining undistributed accumulated taxable S Corporation earnings through the date of termination of the Company's S Corporation status. It is estimated that the amount of the Final 1998 Distribution will be \$7.6 million, all of which will be

paid to the Greenberg Family Trust. It is estimated that the amount of the Final Tax Distribution will be \$3.4 million, and that the amount of the Final S Corporation Distribution will be \$22.0 million.

The Final Tax Distribution and the Final S Corporation Distribution will be paid to the holders of 5% or more of the Company's Class B Common Stock:

<TABLE>

<CAPTION>

NAME OF STOCKHOLDER	FINAL TAX DISTRIBUTION	FINAL S CORPORATION DISTRIBUTION
The Greenberg Family Trust.....	\$2,210,000	\$13,849,000
Michael Greenberg.....	340,000	2,497,000
Jason Greenberg.....	170,000	1,133,400
Jeffrey Greenberg.....	170,000	1,057,600
Joshua Greenberg.....	170,000	1,135,400
Jennifer Greenberg.....	170,000	1,143,400

</TABLE>

In connection with the Offering and the termination of the Company's S Corporation tax status, the Company entered into a tax indemnification agreement with each of its stockholders. The agreements provide that the Company will indemnify and hold harmless each of the stockholders for Federal, state, local or foreign income tax liabilities, and costs relating thereto, resulting from any adjustment to the Company's income that is the result of an increase in or change in character, of the Company's income during the period it was treated as an S Corporation up to the benefit received by the Company in connection with such adjustments. The agreements also provide that if there is a determination that the Company was not an S Corporation prior to the Offering, the stockholders will indemnify the Company for the additional tax liability arising as a result of such determination up to the amount of the prior distributions to the stockholders less the taxes payable with respect to such distributions.

Shares of Class A Common Stock issuable upon conversion of shares of Class B Common Stock held by the Greenberg Family Trust and Michael Greenberg are subject to certain registration rights. See "Description of Capital Stock -- Registration Rights."

The Company intends to enter into employment agreements with certain executive officers. See "Management -- Executive Compensation -- Employment Agreements."

The Company believes that all of the foregoing transactions were on terms no less favorable than those that could have been received from unrelated third parties.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Company's Class A and Class B Common Stock (assuming consummation of the Recapitalization) by (i) each director and nominated director of the Company, (ii) each of the Named Executive Officers, (iii) each person known to the Company to be beneficial owner of more than 5% of either class of the Common Stock and (iv) all directors and executive officers of the Company as a group.

<TABLE>

<CAPTION>

NAME OF BENEFICIAL OWNER(1)(2)	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(2)			SHARES BENEFICIALLY OWNED AFTER OFFERING(2)			
	CLASS A			CLASS B			
	NUMBER OF SHARES	NUMBER OF SHARES	PERCENT OF TOTAL VOTING POWER	NUMBER OF SHARES	NUMBER OF SHARES	PERCENT OF TOTAL VOTING POWER	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	
Robert Greenberg(3).....	--	18,079,198(4)	65.0%	1,790,000	--	16,289,198(4)	60.1%
Michael Greenberg.....	--	2,781,415	10.0	--	--	2,781,415	10.3
David Weinberg.....	69,535(5)	--	*	--	69,535(5)	--	*
Jeffrey Greenberg.....	--	1,390,708	5.0	--	--	1,390,708	5.1
Jason Greenberg.....	--	1,390,708	5.0	--	--	1,390,708	5.1
Joshua Greenberg.....	--	1,390,708	5.0	--	--	1,390,708	5.1
Jennifer Greenberg.....	--	1,390,708	5.0	--	--	1,390,708	5.1
John Quinn.....	--	--	--	--	--	--	--
Richard Siskind.....	--	--	--	--	--	--	--
All directors, director nominees and executive officers as a group (6 persons)(5).....	69,535(5)	20,860,613	75.0	1,790,000	69,535(5)	19,070,613	70.4

</TABLE>

* Less than 1.0%

(1) To the Company's knowledge, except as set forth in the footnotes to this table and subject to applicable community property laws, each person named in the table has sole voting and investment power with respect to the shares of Common Stock set down opposite such person's name. Each of such persons may be reached at 228 Manhattan Beach Boulevard, Manhattan Beach, California 90266.

(2) The percentage of total voting power is calculated assuming no shares of Class A Common Stock and 27,814,155 shares of Class B Common Stock were outstanding on March 31, 1999, as applicable, and 10,715,000 shares of Class A Common Stock and 26,024,155 shares of Class B Common Stock will be outstanding immediately following the completion of the Offering, as applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the "Commission") and generally includes voting or investment power with respect to the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Class A Common Stock subject to options held by that person that are currently exercisable or exercisable within 60 days of the effective date of the offering are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of each other person.

(3) Does not reflect the sale of the maximum number of shares which may be sold by the Selling Stockholder if the over-allotment option is exercised in full. If such option is exercised in full, the Greenberg Family Trust will sell 1,607,250 shares of Class A Common Stock and Robert Greenberg will beneficially own 57.2% of the voting power at such time. The Class B Common Stock is convertible at any time into shares of the Class A Common Stock on a share-for-share basis. See "Certain Transactions" for a description of transactions between the Selling Stockholder and the Company.

(4) Represents shares of Class B Common Stock which Mr. Greenberg, Chief Executive Officer and Chairman of the Board of the Company, is deemed to beneficially own as a Trustee of the Greenberg Family Trust. M. Susan Greenberg, Robert Greenberg's wife, is also a trustee of the Greenberg Family Trust and is also deemed to beneficially own all shares held by the Greenberg Family Trust.

(5) Represents shares of Class A Common Stock underlying options, which are

exercisable on the effective date of the Offering.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 160,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock. Of the 160,000,000 shares of Common Stock authorized, 100,000,000 shares are designated as Class A Common Stock and 60,000,000 shares are designated as Class B Common Stock. After giving effect to the Offering, there will be 10,715,000 shares of Class A Common Stock outstanding, 26,024,155 shares of Class B Common Stock outstanding and no shares of Preferred Stock outstanding.

CLASS A COMMON STOCK AND CLASS B COMMON STOCK

General

The holders of Class A Common Stock and Class B Common Stock have identical rights except with respect to voting, conversion and transfer. All shares of Class B Common Stock outstanding upon the effective date of this Prospectus, and the shares of Class A Common Stock offered hereby will, upon issuance and sale, be fully paid and nonassessable.

Voting Rights

Holders of Class A Common Stock are entitled to one vote per share while holders of Class B Common Stock are entitled to ten votes per share on all matters to be voted on by stockholders. Holders of shares of Class A Common Stock and Class B Common Stock are not entitled to cumulate their votes in the election of directors. Generally, all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast by all shares of Class A Common Stock and Class B Common Stock present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any Preferred Stock. Except as otherwise provided by law or in the Certificate of Incorporation, and subject to any voting rights granted to holders of any outstanding Preferred Stock, amendments to the Certificate of Incorporation must be approved by a majority of the votes entitled to be cast by all shares of Class A Common Stock and Class B Common Stock present in person or represented by proxy, voting together as a single class. However, amendments to the Certificate of Incorporation that would alter or change the powers, preferences or special rights of the Class A Common Stock so as to affect them adversely also must be approved by a majority of the votes entitled to be cast by the holders of the Class A Common Stock, voting as a separate class. Any amendment to the Certificate of Incorporation to increase the authorized shares of any class requires the approval of a majority of the votes entitled to be cast by all shares of Class A Common Stock and Class B Common Stock present in person or represented by proxy, voting together as a single class, subject to the rights set forth in any series of Preferred Stock created as described below.

Dividends, Distributions and Stock Splits

Holders of Class A Common Stock and Class B Common Stock will share equally on a per share basis in any dividend declared by the Board of Directors, subject to any preferential rights of any outstanding Preferred Stock.

Dividends or distributions consisting of shares of Class A Common Stock and Class B Common Stock may be paid only as follows: (i) shares of Class A Common Stock may be paid only to holders of Class A Common Stock, and shares of Class B Common Stock may be paid only to holders of Class B Common Stock; and (ii) the number of shares so paid will be equal on a per share basis with respect to each outstanding share of Class A Common Stock and Class B Common Stock. In the case of dividends or distributions consisting of other voting shares of the Company, the Company will declare and pay such dividends in two separate classes of such voting securities, identical in all respects, except that the voting rights of each such security paid to the holders of the Class A Common Stock shall be one-tenth of the voting rights of each such security paid to the holders of

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Class B Common Stock, and such security paid to the holders of Class B Common Stock shall convert into the security paid to the holders of the Class A Common Stock upon the same terms and conditions applicable to the Class B Common Stock. In the case of dividends or distributions consisting of securities convertible into, or exchangeable for, voting securities of the Company, the Company will provide that such convertible or exchangeable securities and the underlying securities be identical in all respects, except that the voting rights of each security underlying the convertible or exchangeable security paid to the holders of the Class A Common Stock shall be one-tenth of the voting rights of each security underlying the convertible or exchangeable security paid to the holders of Class B Common Stock, and such underlying securities paid to the holders of Class B Common Stock shall convert into the security paid to the holders of the Class A Common Stock upon the same terms and conditions applicable to the Class B Common Stock.

The Company may not reclassify, subdivide or combine shares of either class of Common Stock without at the same time proportionally reclassifying, subdividing or combining shares of the other class.

Conversion of Class B Common Stock

A share of Class B Common Stock will be convertible into a share of Class A Common Stock on a share-for-share basis (i) at the option of the holder thereof at any time, or (ii) automatically upon transfer to a person or entity which is not a Permitted Transferee (as defined in the Certificate of Incorporation). In general, Permitted Transferees will include (i) all holders of the Class B Common Stock outstanding immediately prior to the Offering and (ii) any Person (as defined in the Certificate of Incorporation) that is an affiliate, spouse or descendent of any such holder, their estates or trusts for their benefit. The Class A Common Stock has no conversion rights.

Liquidation

In the event of any dissolution, liquidation, or winding up of the affairs of the Company, whether voluntary or involuntary, after payment of the debts and other liabilities of the Company and making provision for the holders of Preferred Stock, if any, the remaining assets of the Company will be distributed ratably among the holders of the Class A Common Stock and the Class B Common Stock, treated as a single class.

Mergers and Other Business Combinations

Upon a merger, combination, or other similar transaction of the Company in which shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, holders of each class of Common Stock will be entitled to receive an equal per share amount of stock, securities, cash, and/or any other property, as the case may be, into which or for which each share of any other class of Common Stock is exchanged or changed; provided that in any transaction in which shares of capital stock are distributed, such shares so exchanged for or changed into may differ as to voting rights and certain conversion rights to the extent and only to the extent that the voting rights and certain conversion rights of Class A Common Stock and Class B Common Stock differ at that time.

Other Provisions

The holders of the Class A Common Stock and Class B Common Stock are not entitled to preemptive rights. There are no redemption provisions or sinking fund provisions applicable to the Class A Common Stock or the Class B Common Stock.

PREFERRED STOCK

The Board of Directors has the authority, without further action by the stockholders of the Company, to issue up to 10,000,000 shares of Preferred Stock in one or more series, and to fix the

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designations, rights, preferences, privileges, qualifications and restrictions thereof including dividend rights, conversion rights, voting rights, rights and terms of redemption, liquidation preferences and sinking fund terms, any or all of which may be greater than the rights of the Common Stock. The Board of Directors, without stockholder approval, can issue Preferred Stock with voting, conversion and other rights which could adversely affect the voting power and other rights of the holders of Common Stock. Preferred Stock could thus be issued quickly with terms calculated to delay or prevent a change in control of the Company or to make removal of management more difficult. In certain circumstances, such issuance could have the effect of decreasing the market price of the Common Stock. The issuance of Preferred Stock may have the effect of delaying, deterring or preventing a change in control of the Company without any further action by the stockholders including, but not limited to, a tender offer to purchase Common Stock at a premium over then current market prices. The Company has no present plan to issue any shares of Preferred Stock.

REGISTRATION RIGHTS

The Company has entered into a registration rights agreement with the Greenberg Family Trust, of which Robert Greenberg, Chairman of the Board and Chief Executive Officer, is a Trustee, and Michael Greenberg, President, pursuant to which the Company has agreed that it will, on up to two separate occasions per year, register up to one-third of the shares of Class A Common Stock issuable upon conversion of their Class B Common Stock beneficially owned as of the closing of the Offering by each such stockholder in any one year. The Company also agreed that, if it shall cause to be filed with the Commission a registration statement, each such stockholder shall have the right to include up to one-third of the shares of Class A Common Stock issuable upon conversion of their Class B Common Stock beneficially owned as of the closing of the Offering by each of them in such registration statement subject to limitations due to marketing conditions. All expenses of such registrations shall be at the Company's expense. See "Certain Transactions."

ANTI-TAKEOVER EFFECTS OF PROVISIONS OF THE COMPANY'S CHARTER AND BYLAWS

The Company's Bylaws provide that the Board of Directors is divided into three classes. Class I Directors will serve until the annual meeting of

stockholders in 2000 and thereafter for the terms of three years until their successors have been elected and qualified. Class II Directors will serve until the annual meeting of stockholders in 2001 and thereafter for terms of three years until their successors have been elected and qualified. Class III Directors will serve until the annual meeting of stockholders in 2002 and thereafter for terms of three years until their successors have been elected and qualified. Stockholders have no cumulative voting rights and the Company's stockholders representing a majority of the shares of Common Stock outstanding are able to elect all of the directors. The Company's Bylaws also provide that any action that is required to be or may be taken at any annual or special meeting of stockholders of the Company, may, if such action has been earlier approved by the Board, be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. The Bylaws provide that only the Company's Board of Directors or the Chairman may call a special meeting of the stockholders.

The classification of the Board of Directors and lack of cumulative voting makes it more difficult for the Company's existing stockholders to replace the Board of Directors as well as for any other party to obtain control of the Company by replacing the Board of Directors. Since the Board of Directors has the power to retain and discharge officers of the Company, these provisions could make it more difficult for existing stockholders or another party to effect a change in management.

These and other provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of the Company. These provisions are intended to enhance the likelihood of continued stability in the composition of the Board of Directors and in the policies

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furnished by the Board of Directors and to discourage certain types of transactions that may involve an actual or threatened change of control of the Company. These provisions are designed to reduce the vulnerability of the Company to an unsolicited acquisition proposal. These provisions are also intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for the Company's shares and, as a consequence, they may also inhibit fluctuations in the market price of the Company's shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in the management of the Company.

SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW

Generally, Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a broad range of "business combinations" with an "interested stockholder" (defined generally as a person owning 15.0% of more of a corporation's outstanding voting stock) for three years following the date such person became an interested stockholder unless (i) before the person becomes an interested stockholder, the transaction resulting in such person becoming an interested stockholder or the business combination is approved by the board of directors of the corporation, (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owns at least 85.0% of the outstanding voting stock of the corporation (excluding shares owned by directors who are also officers of the corporation or shares held by employee stock plans that do not provide employees with the right to determine confidentially whether shares held subject to the plan will be tendered in a tender offer or exchange offer), or (iii) on or after such date on which such person became an interested stockholder the business combination is approved by the board of directors and authorized at an annual or special meeting, and not by written consent, by the affirmative vote of at least 66.6% of the outstanding voting stock excluding shares owned by the interested stockholders. The restrictions of Section 203 do not apply, among other reasons, if a corporation, by action of its stockholders, adopts an amendment to its certificate of incorporation or bylaws expressly electing not to be governed by Section 203, provided that, in addition to any other vote required by law, such amendment to the certificate of incorporation or bylaws must be approved by the affirmative vote of a majority of the shares entitled to vote. Moreover, an amendment so adopted is not effective until twelve months

after its adoption and does not apply to any business combination between the corporation and any person who became an interested stockholder of such corporation on or prior to such adoption. The Certificate of Incorporation and Bylaws do not currently contain any provisions electing not to be governed by Section 203 of the DGCL.

Section 203 of the DGCL may discourage persons from making a tender offer for or acquisitions of substantial amounts of the Class A Common Stock. This could have the effect of inhibiting changes in management and may also prevent temporary fluctuations in the Class A Common Stock that often result from takeover attempts.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Class A Common Stock is

SHARES ELIGIBLE FOR FUTURE SALE

Prior to the Offering, there has been no public market for the Class A Common Stock. No prediction can be made as to the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Sales of substantial amounts of Class A Common Stock of the Company in the public market could adversely affect prevailing market prices.

After the Offering, the Company will have outstanding 10,715,000 shares of Class A Common Stock. In addition, the Company will have outstanding 26,024,155 shares of Class B Common Stock,

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all of which will be convertible into Class A Common Stock on a share-for-share basis at the election of the holder or upon transfer or disposition to persons who are not Permitted Transferees (as defined in the Company's Certificate of Incorporation). Of the outstanding shares, the 10,715,000 shares of Class A Common Stock to be sold in the Offering will be freely tradeable without restriction or further registration under the Securities Act unless purchased by "affiliates" of the Company as that term is defined in Rule 144 under the Securities Act.

The 26,024,155 shares of Class B Common Stock outstanding upon completion of the Offering are "restricted securities" as that term is defined in Rule 144, all of which will be eligible for sale under Rule 144 upon completion of the Offering, subject to the lock-up described below. As described below, Rule 144 permits resales of restricted securities subject to certain restrictions.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who beneficially owned shares for at least one year, including any person who may be deemed an "affiliate" of the Company (as the term "affiliate" is defined under the Securities Act), would be entitled to sell within any three month period a number of such shares that does not exceed the greater of 1.0% of the shares of the Company's Class A Common Stock then outstanding (107,150 shares immediately after the Offering) or the average weekly trading volume in the Company's Class A Common Stock during the four calendar weeks preceding the date on which notice of the sale is filed with the Commission. A person who is not deemed to have been an "affiliate" of the Company any time during the three months immediately preceding a sale and who has beneficially owned shares for at least two years would be entitled to sell such shares under Rule 144 without regard to the volume limitation described

above.

All executive officers, directors, stockholders and optionholders of the Company (including the Selling Stockholder) have agreed that they will not, without the prior written consent of BT Alex. Brown Incorporated on behalf of the Underwriters (which consent may be withheld in its sole discretion) and subject to certain limited exceptions, offer, pledge, sell, contract to sell, sell any option or contract to purchase, sell short, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, or enter into any swap or similar agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Common Stock, for a period commencing on the date of this Prospectus and continuing to a date 180 days after such date; provided, however, that such restrictions do not apply to shares of Class A Common Stock sold or purchased in the Offering or to shares of Class A Common Stock purchased in the open market following the Offering. BT Alex. Brown Incorporated, on behalf of the Underwriters, may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock up agreements. In addition, the Company has agreed that, for a period of 180 days after the date of this Prospectus, it will not, without the consent of BT Alex. Brown Incorporated, make any offering, sale, short sale or other disposition of any shares of Common Stock of the Company or other securities convertible into or exchangeable or exercisable for shares of Common Stock or derivative of Common Stock (or agreement for such) except for the grant of options to purchase shares of Class A Common Stock pursuant to the Stock Option Plan and shares of Class A Common Stock issued pursuant to the exercise of options granted under such plan and the grant of purchase rights and issuance of shares under the 1998 Purchase Plan, provided that such options and grants shall not vest, or the Company shall obtain the written consent of the holder thereof not to transfer such shares, until the end of such 180-day period. See "Management -- Stock Options" and "Underwriting."

In general, under Rule 701 under the Securities Act, any employee, director, consultant or advisor of the Company who purchases shares from the Company in connection with a compensatory stock or option plan or other written compensatory agreement is entitled to resell such shares without having to comply with the public information, holding period, volume limitation or notice provisions of Rule 144, and affiliates are eligible to resell such shares 90 days after the effective date

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of the Offering in reliance on Rule 144, subject to the provisions of the 180-day lock-up arrangements.

The Stock Option Plan authorizes the grant of options to purchase, and awards of, an aggregate of up to 5,215,154 shares of the Company's Class A Common Stock. Options to purchase 1,390,715 shares are outstanding. In addition, options to purchase _____ shares of Class A Common Stock are expected to be granted to certain employees and non-employee directors of the Company on the effective date of the Offering, which options will vest ratably commencing one year from the date of this Prospectus in 20.0% increments for any employees and officers, and in 33.3% increments for non-employee directors. An aggregate of 2,781,415 shares are reserved for issuance under the 1998 Purchase Plan. The Company intends to file a Registration Statement on Form S-8 covering all outstanding options and shares reserved for issuance under the Stock Option Plan and the 1998 Purchase Plan, thus permitting the resale of such shares in the public market.

Certain stockholders beneficially owning an aggregate of 19,070,613 shares of Class B Common Stock have certain registration rights relating to the shares of Class A Common Stock issuable upon conversion of their Class B Common Stock. If such holders, by exercising their registration rights, cause a large number of shares to be registered and sold in the public market, such sales could have a material adverse effect on the market price for the Company's Class A Common Stock. See "Description of Capital Stock -- Registration Rights."

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters named below (the "Underwriters"), through their Representatives, BT Alex. Brown Incorporated and Prudential Securities Incorporated have severally agreed to purchase from the Company and the Selling Stockholder the following respective numbers of shares of Class A Common Stock at the initial public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus:

<TABLE> <CAPTION>	UNDERWRITER	NUMBER OF SHARES
	-----	-----
	<S>	<C>
	BT Alex. Brown Incorporated.....	
	Prudential Securities Incorporated.....	
	Total.....	10,715,000
		=====

</TABLE>

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will purchase all shares of the Class A Common Stock offered hereby if any of such shares are purchased.

The Company and the Selling Stockholder have been advised by the Representatives of the Underwriters that the Underwriters propose to offer the shares of Class A Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of \$ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of \$ per share to certain other dealers. After the initial public offering, the offering price and other selling terms may be changed by the Representatives of the Underwriters. The expenses of the Offering, all of which are being paid by the Company, are estimated to be \$2,000,000.

The Selling Stockholder has granted an option to the Underwriters, exercisable not later than 30 days after the date of this Prospectus, to purchase up to 1,607,250 additional shares of Class A Common Stock at the public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus. To the extent that the Underwriters exercise such option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage thereof that the number of shares of Class A Common Stock to be purchased by it shown in the above table bears to 10,715,000 and the Selling Stockholder will be obligated, pursuant to the option, to sell such shares to the Underwriters. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of Class A Common Stock offered hereby. If purchased, the Underwriters will offer such additional shares on the same terms as those on which the 10,715,000 shares are being offered.

The Company and the Selling Stockholder have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act.

All executive officers, directors, stockholders and optionholders of the Company (including the Selling Stockholder) have agreed that they will not,

without the prior written consent of BT Alex. Brown Incorporated, on behalf of the Underwriters, (which consent may be withheld in its sole discretion) and subject to certain limited exceptions, offer, pledge, sell, contract to sell, sell any option or contract to purchase, sell short, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, or enter into any swap or similar agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Common Stock, for a period commencing on the date of this Prospectus and continuing to a date 180 days after such date; provided, however, that such restrictions do not apply to shares of Class A Common Stock sold or purchased in the Offering or to shares of Class A Common Stock purchased in the open market following the Offering. BT

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Alex. Brown Incorporated, on behalf of the Underwriters, may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock up agreements. In addition, the Company has agreed that, for a period of 180 days after the date of this Prospectus, it will not, without the consent of BT Alex. Brown Incorporated, make any offering, sale, short sale or other disposition of any shares of Common Stock of the Company or other securities convertible into or exchangeable or exercisable for shares of Common Stock or derivative of Common Stock (or agreement for such) except for the grant of options to purchase shares of Class A Common Stock pursuant to the Stock Option Plan and shares of Class A Common Stock issued pursuant to the exercise of options granted under such plan and the grant of purchase rights and issuance of shares under the 1998 Purchase Plan, provided that such options and grants shall not vest, or the Company shall obtain the written consent of the holder thereof not to transfer such shares, until the end of such 180-day period. See "Management -- Stock Options" and "Shares Eligible for Future Sale."

The Representatives of the Underwriters have advised the Company and the Selling Stockholder that the Underwriters do not expect to make sales to accounts over which they exercise discretionary authority in excess of 5.0% of the number of shares of Class A Common Stock offered hereby.

Prior to the Offering, there has been no public market for the Class A Common Stock of the Company. Consequently, the initial public offering price for the Company will be determined by negotiations among the Company, the Selling Stockholder and the Representatives. Among the factors to be considered in such negotiations are the history of, and prospects for, the Company and the industry in which it competes, an assessment of the Company management, its past and present operations and financial performance, the prospects for further earnings of the Company, the present state of the Company's development, the general condition of the securities markets at the time of the Offering, the market prices of and demand for publicly traded common stocks of comparable companies in recent periods and other factors deemed relevant.

The Representatives have advised the Company that, pursuant to Regulation M under the Securities Act, certain persons participating in the Offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids, which may have the effect of stabilizing or maintaining the market price of the Class A Common Stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of the Class A Common Stock on behalf of the Underwriters for the purpose of fixing or maintaining the price of the Class A Common Stock. A "syndicate covering transaction" is the bid for or the purchase of the Class A Common Stock on behalf of the Underwriters to reduce a short position incurred by the Underwriters in connection with the Offering. A "penalty bid" is an arrangement permitting the Representatives to reclaim the selling concession otherwise accruing to an Underwriter or syndicate member in connection with the Offering if the Class A Common Stock originally sold by such Underwriter or syndicate member is purchased by the Representative in a

syndicate covering transaction and has therefore not been effectively placed by such Underwriter or syndicate member. The Representatives have advised the Company that such transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

LEGAL MATTERS

Certain matters relating to this offering are being passed upon for the Company and the Selling Stockholder by Freshman, Marantz, Orlanski, Cooper & Klein, a law corporation, Beverly Hills, California. Certain legal matters will be passed upon for the Underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California.

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EXPERTS

The consolidated financial statements and schedule of Skechers U.S.A., Inc. as of December 31, 1997 and 1998, and for each of the years in the three-year period ended December 31, 1998, have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent certified public accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed a Registration Statement under the Securities Act with the Commission with respect to the Class A Common Stock offered hereby. This Prospectus, which constitutes part of the Registration Statement, omits certain of the information contained in the Registration Statement and the exhibits thereto on file with the Commission pursuant to the Securities Act and the rules and regulations of the Commission. Statements contained in this Prospectus such as the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement, including the exhibits thereto, may be inspected without charge at the Commission's principal office at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549, and copies of all or any part thereof may be obtained from the Commission upon the payment of certain fees prescribed by the Commission. The Commission also maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants, such as the Company, that file electronically with the Commission. The address of the site is <http://www.sec.gov>.

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SKECHERS U.S.A., INC.

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Consolidated Statements of Cash Flows -- Each of the years in the three-year period ended December 31, 1998.....

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Notes Consolidated to Financial Statements.....

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INDEPENDENT AUDITORS' REPORT

When the transactions referred to in Note 12 of the Notes to Consolidated Financial Statements have been consummated, we will be in a position to render the following report.

KPMG LLP

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

We have audited the accompanying consolidated balance sheets of Skechers U.S.A., Inc. and subsidiary as of December 31, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Skechers U.S.A., Inc. and subsidiary as of December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

Los Angeles, California

March 12, 1999, except as to

Note 12, which is as of April , 1999

SKECHERS U.S.A., INC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1997 AND 1998

(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS

<TABLE>
<CAPTION>

	1997	1998
	-----	-----
<S>	<C>	<C>
Current assets:		
Cash.....	\$ 1,462	\$ 10,942
Trade accounts receivable, less allowances for bad debts and returns of \$1,990 in 1997 and \$3,413 in 1998.....	31,231	46,771
Due from officers and employees.....	355	116
Other receivables.....	1,293	2,329
	-----	-----
Total receivables.....	32,879	49,216
	-----	-----
Inventories.....	45,832	65,390
Prepaid expenses and other current assets.....	739	2,616
	-----	-----
Total current assets.....	80,912	128,164
	-----	-----
Property and equipment, at cost, less accumulated depreciation and amortization.....	7,423	15,196
Intangible assets, at cost, less applicable amortization....	1,137	1,003
Other assets, at cost.....	1,409	1,921
	-----	-----
	\$90,881	\$146,284
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Short-term borrowings.....	\$22,837	\$ 54,323
Current installments of long-term borrowings.....	300	816
Current installments of notes payable to stockholder.....	--	2,244
Accounts payable.....	36,013	38,145
Accrued expenses.....	4,681	9,530
	-----	-----
Total current liabilities.....	63,831	105,058
	-----	-----
Long-term borrowings, excluding current installments.....	2,675	3,550
Notes payable to stockholder, excluding current installments.....	13,250	10,000
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, \$.001 par value; 10,000 shares authorized; none issued and outstanding.....	--	--
Class A Common Stock, \$.001 par value; 100,000 shares authorized; none issued and outstanding.....	--	--
Class B Common Stock, \$.001 par value; 60,000 shares authorized; 27,814 shares issued and outstanding.....	2	2
Additional paid-in capital.....	--	--
Retained earnings.....	11,123	27,674
	-----	-----
Total stockholders' equity.....	11,125	27,676
	-----	-----

\$90,881 \$146,284

</TABLE>

See accompanying notes to consolidated financial statements.

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SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	1996	1997	1998
	<u> </u>	<u> </u>	<u> </u>
	<C>	<C>	<C>
Net sales.....	\$115,410	\$183,827	\$372,680
Cost of sales.....	81,199	115,104	218,100
	<u> </u>	<u> </u>	<u> </u>
Gross profit.....	34,211	68,723	154,580
Royalty income, net.....	1,592	894	855
	<u> </u>	<u> </u>	<u> </u>
	35,803	69,617	155,435
	<u> </u>	<u> </u>	<u> </u>
Operating expenses:			
Selling.....	11,739	21,584	49,983
General and administrative.....	18,939	32,397	71,461
	<u> </u>	<u> </u>	<u> </u>
	30,678	53,981	121,444
	<u> </u>	<u> </u>	<u> </u>
Earnings from operations.....	5,125	15,636	33,991
	<u> </u>	<u> </u>	<u> </u>
Other income (expense):			
Interest.....	(3,231)	(4,186)	(8,631)
Other, net.....	61	(37)	(239)
	<u> </u>	<u> </u>	<u> </u>
	(3,170)	(4,223)	(8,870)
	<u> </u>	<u> </u>	<u> </u>
Earnings before income taxes.....	1,955	11,413	25,121
State income taxes -- all current.....	45	390	650
	<u> </u>	<u> </u>	<u> </u>
Net earnings.....	<u>\$ 1,910</u>	<u>\$ 11,023</u>	<u>\$ 24,471</u>
	<u> </u>	<u> </u>	<u> </u>
Pro forma operations data (unaudited):			
Earnings before income taxes.....	\$ 1,955	\$ 11,413	\$ 25,121
Income taxes.....	782	4,565	10,048
	<u> </u>	<u> </u>	<u> </u>
Net earnings.....	<u>\$ 1,173</u>	<u>\$ 6,848</u>	<u>\$ 15,073</u>
	<u> </u>	<u> </u>	<u> </u>
Net earnings per share:			
Basic.....		\$.54	
Diluted.....		\$.50	
		<u> </u>	
Weighted average shares:			
Basic.....		27,814	
Diluted.....		30,418	
		<u> </u>	

</TABLE>

See accompanying notes to consolidated financial statements.

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SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

	COMMON STOCK		TOTAL		
	SHARES	AMOUNT	RETAINED EARNINGS	STOCKHOLDERS' EQUITY	
Balance at December 31, 1995.....	27,814	\$2	\$ 936	\$ 938	\$ 938
Net earnings.....	--	--	1,910	1,910	
Recovery of distributions from stockholders.....	--	--	600	600	600
Distributions.....	--	--	(112)	(112)	
Balance at December 31, 1996.....	27,814	2	3,334	3,336	3,336
Net earnings.....	--	--	11,023	11,023	
Distributions.....	--	--	(3,234)	(3,234)	
Balance at December 31, 1997.....	27,814	2	11,123	11,125	11,125
Net earnings.....	--	--	24,471	24,471	
Distributions.....	--	--	(7,920)	(7,920)	
Balance at December 31, 1998.....	27,814	\$2	\$27,674	\$27,676	\$27,676

</TABLE>

See accompanying notes to consolidated financial statements.

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SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(IN THOUSANDS)

<TABLE>
<CAPTION>

	1996	1997	1998	
Cash flows from operating activities:				
Net earnings.....	\$ 1,910	\$ 11,023	\$ 24,471	
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:				
Depreciation and amortization of property and equipment.....	743	1,137	2,843	
Amortization of intangible assets.....	289	1,456	148	
Provision (recovery) for bad debts and returns.....	(52)	870	1,423	
Loss on disposal of property and equipment.....	--	--	190	

(Increase) decrease in:			
Receivables.....	(2,707)	(12,635)	(17,760)
Inventories.....	7,749	(30,021)	(19,558)
Prepaid expenses and other current assets.....	418	(290)	(1,877)
Other assets.....	71	(1,212)	(512)
Increase (decrease) in:			
Accounts payable.....	(4,344)	27,623	2,132
Accrued expenses.....	2,524	(83)	4,249

Net cash provided by (used in) operating activities.....	6,601	(2,132)	(4,251)

Cash flows from investing activities:			
Capital expenditures.....	(630)	(6,239)	(9,434)
Intangible assets.....	(199)	(512)	(14)

Net cash used in investing activities.....	(829)	(6,751)	(9,448)

Cash flows from financing activities:			
Net proceeds related to short-term borrowings.....	(7,337)	10,426	31,486
Proceeds from long-term debt.....	--	3,000	581
Payments on long-term debt.....	--	(25)	(562)
Proceeds from notes payable to stockholder.....	1,250	--	--
Payments on notes payable to stockholder.....	--	--	(1,006)
Distributions to stockholders.....	(112)	(3,234)	(7,320)
Recovery of distributions from stockholders.....	600	--	--
Other.....	(41)	--	--

Net cash provided by (used in) financing activities.....	(5,640)	10,167	23,179

Net increase in cash.....	132	1,284	9,480
Cash at beginning of year.....	46	178	1,462

Cash at end of year.....	\$ 178	\$ 1,462	\$ 10,942
=====			
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest.....	\$ 3,188	\$ 4,186	\$ 8,067
Income taxes.....	30	226	1,416
=====			

</TABLE>

Supplemental disclosure of non-cash investing and financing activities:

During 1998, the Company acquired \$1,372,000 of property and equipment under capital lease arrangements. In connection with one of these arrangements, the Company received \$581,000 in cash through a sale leaseback transaction.

During 1998, the Company declared \$7,920,000 of dividend distributions of which \$600,000 was included in accrued expenses at December 31, 1998.

See accompanying notes to consolidated financial statements.

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Skechers U.S.A., Inc. (the "Company") designs, develops, markets and distributes footwear. The Company also operates retail stores and a direct mail business.

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

Revenue Recognition

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

Revenues from royalty agreements are recognized as earned.

Inventories

Inventories, principally finished goods, are stated at the lower of cost (based on the first-in, first-out method) or market. The Company provides for potential losses from obsolete or slow-moving inventories.

Income Taxes

The Company has elected to be treated for Federal and state income tax purposes as an S Corporation under Subchapter S of the Internal Revenue Code and comparable state laws. As a result, the earnings of the Company have been included in the taxable income of the Company's stockholders for Federal and state income tax purposes, and the Company has generally not been subject to income tax on such earnings, other than California and other state franchise taxes.

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

Depreciation and Amortization

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

<TABLE>

<S>

<C>

Furniture, fixtures and equipment 5 years

Leasehold improvements Useful life or remaining lease term, whichever is shorter

</TABLE>

Intangible assets consist of trademarks and are amortized on a straight-line basis over ten years. The accumulated amortization as of December 31, 1997 and 1998 is \$940,000 and \$1,088,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

Long-Lived Assets

The Company accounts for long-lived assets, including intangibles, at amortized cost. As part of an ongoing review of the valuation and amortization of long-lived assets, management assesses the carrying value of assets if facts and circumstances suggest that such assets may be impaired. If this review indicates that the assets will not be recoverable, as determined by a nondiscounted cash flow analysis over the remaining amortization period, the carrying value of the assets would be reduced to its estimated fair market value, based on discounted cash flows.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 1996, 1997 and 1998 approximated \$7.9 million, \$15.8 million and \$42.0 million, respectively.

Start-Up Costs

Start-up costs are charged to operations as incurred.

Earnings per Share

The Company reports earnings per share under Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earnings Per Share." Under SFAS No. 128, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share reflects the potential dilution that could occur if securities to issue common stock were exercised or converted into common stock. The weighted average diluted shares outstanding gives effect to the sale by the Company of those shares of Common Stock (1,535,000 shares) necessary to fund the payment of the excess of (i) the sum of stockholder distributions during the previous 12-month period and distributions paid or declared thereafter until the consummation of the Offering in excess of (ii) the S Corporation earnings in the previous 12-month period based on the assumed initial public offering price of \$14 per share (the mid-point of the range), net of underwriting discounts.

The reconciliation of basic to diluted weighted average shares for 1998 is as follows (in thousands):

<TABLE>	<C>
<S>	
Weighted average shares used in basic computation.....	27,814
Shares to fund stockholders distributions as described	
above.....	1,535
Dilutive stock options.....	1,069

Weighted average shares used in diluted computation.....	30,418
	=====

</TABLE>

Stock Compensation

The Company accounts for stock compensation under SFAS No. 123, "Accounting for Stock-Based Compensation", and has elected to measure compensation cost under Accounting Principles Board Opinion No. 25 and comply with the pro forma disclosure requirements. Had compensation cost been determined using the fair

value at the grant date for awards during 1998, consistent with

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

the provisions of SFAS No. 123, the Company's net earnings would have been reduced to the pro forma amount as indicated below (in thousands). No stock awards were granted prior to 1998.

<TABLE>

<S>	<C>
Pro forma net earnings.....	\$24,273
<hr/>	
Pro forma net earnings per share	
Basic.....	\$.54
Diluted.....	\$.49

</TABLE>

The fair value of each option is estimated on the date of grant using the minimum value method with the following weighted average assumptions used for grants during 1998; dividend yield of 0%; risk-free interest rate of 5.7% and expected lives of eight years. The effects of applying SFAS No. 123 may not be representative of effects on reported net earnings for future years.

Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Product Design and Development Costs

The Company charges all product design and development costs to expense when incurred. Product design and development costs aggregated approximately \$900,000, \$1.8 million and \$2.4 million during the years ended December 31, 1996, 1997 and 1998, respectively.

Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards to measure all changes in equity that result from transactions and other economic events other than transactions with owners. Comprehensive income is the total of net earnings and all other nonowner changes in equity. Except for net earnings, the Company does not have any transactions and other economic events that qualify as comprehensive income as defined under SFAS No. 130. Accordingly, the adoption of SFAS No. 130 did not affect the Company's financial reporting.

Fair Value of Financial Instruments

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

The fair value of the Company's short-term instruments reflects the fair value based upon current rates available to the Company for similar debt. The fair value of the Company's long-term debt instruments is based on quoted market prices.

Reclassifications

Certain amounts in the accompanying consolidated financial statements have been reclassified to conform with the 1998 presentation.

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(2) PROPERTY AND EQUIPMENT

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

<TABLE>
<CAPTION>

	1997	1998
	-----	-----
	<C>	<C>
Furniture, fixtures and equipment.....	\$7,355	\$11,849
Leasehold improvements.....	2,777	8,738
	-----	-----
Total property and equipment.....	10,132	20,587
Less accumulated depreciation and amortization.....	2,709	5,391
	-----	-----
Property and equipment, net.....	\$7,423	\$15,196
	=====	=====

</TABLE>

(3) SHORT-TERM BORROWINGS

The Company has available a secured line of credit, as amended in December 1998, permitting borrowings up to \$120,000,000 based upon eligible accounts receivable and inventories. The agreement expires on December 31, 2002. Borrowings bear interest at the rate of prime (7.75% at December 31, 1998) plus .25% or at LIBOR (5.07% at December 31, 1998) plus 2.75% as elected by the Company. The agreement provides for the issuance of letters of credit up to a maximum of \$18,000,000, which decreases the amount available for borrowings under the agreement. Outstanding letters of credit at December 31, 1998 were \$3,942,000. Available borrowings under the line of credit at December 31, 1998

was approximately \$7,000,000. The Company pays an unused line of credit fee of .25% annually. The Company is required to maintain certain financial covenants including specified minimum tangible net worth, working capital and leverage ratios as well as limit the payment of dividends if it is in default of any provision of the agreement. The Company was in compliance with these covenants at December 31, 1998.

(4) NOTES PAYABLE TO STOCKHOLDER

At December 31, 1997, the Company had \$13,250,000 outstanding under an unsecured note payable to a stockholder, bearing interest at 8% and due upon demand. In connection with the amended and restated line of credit, the Company refinanced the note payable to stockholder with a financial institution. In December 1998, the note payable was refinanced by the stockholder into a \$10,000,000 note payable which is subordinated to the line of credit and a \$3,250,000 note payable which is not subordinated to the line of credit. At December 31, 1998, the \$3,250,000 note was reduced by \$1,006,000. The notes bear interest at the prime rate (7.75% at December 31, 1998) and are due on demand. The note holder has agreed not to call the subordinated note prior to January 1, 2000. Accordingly, the subordinated note has been shown as a long-term liability in the accompanying consolidated financial statements. The Company recorded interest expense of approximately \$1,200,000, \$1,060,000 and \$540,000 related to the stockholder notes during the years ended December 31, 1996, 1997 and 1998, respectively.

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(5) LONG-TERM BORROWINGS

Long-term debt at December 31, 1997 and 1998 is as follows (in thousands):

<TABLE>
<CAPTION>

	1997	1998
	-----	-----
<S>	<C>	<C>
Note payable to bank, due in monthly installments of \$25,000 plus interest at prime (7.75% at December 31, 1998) plus 1%, secured by equipment, due December 2002.....	\$2,975	\$2,700
Capital leases, due in aggregate monthly installments of \$62,000, average interest rate of 16.3%, secured by equipment, due through August 2002.....	--	1,666
	-----	-----
	2,975	4,366
Less current installments.....	300	816
	-----	-----
	\$2,675	\$3,550
	=====	=====

</TABLE>

The aggregate maturities of long-term borrowings at December 31, 1998 are as follows:

<TABLE>

<S>	<C>
1999.....	\$ 816
2000.....	910
2001.....	641
2002.....	1,999

	\$4,366
	=====

</TABLE>

(6) STOCKHOLDERS' EQUITY

In January 1998, the Board of Directors of the Company adopted the 1998 Stock Option, Deferred Stock and Restricted Stock Plan ("Stock Option Plan") for the grant of qualified incentive stock options ("ISO"), stock options not qualified and deferred stock and restricted stock. The exercise price for any option granted may not be less than fair value (110% of fair value for ISOs granted to certain employees). Under the Stock Option Plan, 5,215,154 shares are reserved for issuance. In January 1998, 1,390,715 options were granted at an exercise price of \$2.78 per share. The options vest at the end of seven years from the date of grant. If an initial public offering of the Company's securities is consummated, 25.0% of the outstanding options will immediately vest and the balance will vest over the next three years. The options expire ten years from the date of grant.

Effective July 1, 1998, the Company adopted the 1998 Employee Stock Purchase Plan ("1998 Stock Purchase Plan"). The 1998 Stock Purchase Plan is intended to qualify as an Employee Stock Purchase Plan. Under terms of the 1998 Stock Purchase Plan, 2,781,415 shares of common stock are reserved for issuance. No shares were issued under the 1998 Stock Purchase Plan.

(7) INCOME TAXES

The pro forma unaudited income tax adjustments presented represent taxes which would have been reported had the Company been subject to Federal and state income taxes as a C Corporation,

F-11
SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

assuming a 40.0% rate. The historical and pro forma provisions for income tax expense were as follows (in thousands):

<TABLE>
<CAPTION>

	1996	1997	1998
	----	-----	-----
<S>	<C>	<C>	<C>
Historical income taxes.....	\$ 45	\$ 390	\$ 650
	----	-----	-----
Pro forma adjustments (unaudited):			
Federal.....	610	3,573	7,864
State.....	127	602	1,534
	----	-----	-----
Total pro forma adjustments.....	737	4,175	9,398
	----	-----	-----
Total provision for pro forma income taxes.....	\$782	\$4,565	\$10,048
	=====	=====	=====

</TABLE>

Pro forma income taxes differs from the statutory tax rate as applied to earnings before income taxes as follows:

<TABLE>

<CAPTION>

	1996	1997	1998	
	----	-----	-----	
	<C>	<C>	<C>	
Expected income tax expense.....		\$665	\$3,880	\$ 8,541
State income taxes, net of Federal benefit.....		117	685	1,507
	----	-----	-----	
	\$782	\$4,565	\$10,048	
	=====	=====	=====	

</TABLE>

(8) BUSINESS AND CREDIT CONCENTRATIONS

The Company sells footwear products principally throughout the United States and foreign countries. The footwear industry is impacted by the general economy. Changes in the marketplace may significantly affect management's estimates and the Company's performance. Management performs regular evaluations concerning the ability of its customers to satisfy their obligations and provides for estimated doubtful accounts. Domestic accounts receivable amounted to \$29.9 million and \$45.5 million before allowance for bad debts and returns at December 31, 1997 and 1998, respectively, which generally do not require collateral from customers. Foreign accounts receivable amounted to \$3.3 million and \$4.6 million before allowance for bad debts and returns at December 31, 1997 and 1998, respectively, which generally are collateralized by letters of credit. International net sales amounted to \$31.6 million, \$27.7 million and \$34.7 million for the years ended December 31, 1996, 1997 and 1998, respectively. The Company's credit losses for the years ended December 31, 1996, 1997 and 1998 were \$694,000, \$908,000 and \$102,000 million, respectively, and did not significantly differ from management's expectations.

During 1997, no customer accounted for 10% or more of net sales. During 1998, the Company had one significant customer which accounted for 11.8% of net sales. Sales to this customer during 1999 are not expected to continue at the 1998 level. The Company had one customer at December 31, 1997 which accounted for 14.7% of trade accounts receivable and a different customer at December 31, 1998 which accounted for 12.6% of trade receivables.

The Company's operations are subject to the customary risks of doing business abroad, including, but not limited to, currency fluctuations, custom duties and related fees, various import controls and other monetary barriers, restrictions on the transfer of funds, labor unrest and strikes and, in certain parts of the world, political instability.

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(9) BENEFIT PLAN

The Company has adopted a profit sharing plan covering all employees who

are 21 years of age and have completed one year of service. Employees may contribute up to 15.0% of annual compensation. Company contributions to the plan are discretionary and vest over a five-year period. The Company's contributions to the plan amounted to \$53,000, \$93,000 and \$242,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

(10) COMMITMENTS AND CONTINGENCIES

Leases

The Company leases facilities under operating lease agreements expiring through December 2008. The leases are on an all-net basis, whereby the Company pays taxes, maintenance and insurance. The Company also leases certain equipment and automobiles under operating lease agreements expiring at various dates through May 2002. Rent expense for the years ended December 31, 1996, 1997 and 1998 approximated \$2.5 million, \$3.0 million and \$7.9 million, respectively.

The Company also leases certain property and equipment under capital lease agreements requiring monthly installment payments through August 2002.

Future minimum lease payments under noncancellable leases at December 31, 1998 are as follows (in thousands):

<TABLE>
<CAPTION>

	CAPITAL LEASES	OPERATING LEASES
	----- <C>	----- <C>
Year ending December 31:		
1999.....	\$ 749	\$ 8,886
2000.....	749	8,854
2001.....	393	8,824
2002.....	215	8,541
2003.....	--	6,183
Thereafter.....	--	18,487
	----- 2,106	----- \$59,775
Less interest.....	440	
	----- \$1,666	
	=====	

</TABLE>

Litigation

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

Purchase Commitments

At December 31, 1998, the Company had product purchase commitments of approximately \$53 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(11) OFFERING COSTS

In 1996, the Board of Directors authorized the filing of a registration statement for an initial public offering of the Kani division. Management terminated this offering and charged to operations related offering costs of \$530,000.

In 1998, the Board of Directors authorized the filing of a registration statement for an initial public offering of the Company. Management delayed this offering and charged to operations related offering costs of \$660,000 after three months had elapsed.

(12) SUBSEQUENT EVENTS

The Company has resurrected its plans to offer and register equity interests.

The Company was reincorporated in Delaware, whereby the existing California corporation has been merged into a newly formed Delaware corporation and pursuant to which each outstanding share of common stock of the existing California corporation was exchanged for a share of \$.001 par value Class B common stock of the new Delaware corporation. In addition, pursuant to the reincorporation merger, a 13,907 for 1 common stock split was authorized. The amendment and stock split has been reflected retroactively in the accompanying consolidated financial statements.

On April , 1999, the certificate of incorporation was amended and restated such that the authorized capital stock of the Delaware corporation consisted of 100,000,000 shares of Class A common stock, par value \$.001 per share, and 60,000,000 shares of Class B common stock, par value \$.001 per share. The Company has also authorized 10,000,000 shares of preferred stock, \$.001 par value per share.

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

MATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR SALE OF CLASS A COMMON STOCK MEANS THAT INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT AFTER THE DATE OF THIS PROSPECTUS. THIS PROSPECTUS IS NOT AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY THESE SHARES OF CLASS A COMMON STOCK IN ANY CIRCUMSTANCES UNDER WHICH THE OFFER OR SOLICITATION IS UNLAWFUL.

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</TABLE>

DEALER PROSPECTUS DELIVERY OBLIGATION:

UNTIL _____, 1999 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS THAT BUY, SELL OR TRADE THESE SHARES OF CLASS A COMMON STOCK, WHETHER OR NOT PAR-

TICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

10,715,000 Shares

SKECHERS U.S.A., INC.
[LOGO]

Class A Common Stock

PROSPECTUS

BT ALEX. BROWN

PRUDENTIAL SECURITIES

, 1999

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The Registrant estimates that expenses in connection with the offering described in this registration statement, other than underwriting discounts and commissions, will be as follows:

<TABLE>

<S>	<C>
Securities and Exchange Commission registration fee.....	\$ 51,384
NASD filing fee.....	18,984
New York Stock Exchange listing fee.....	300,000*
Printing expenses.....	400,000*
Accounting fees and expenses.....	400,000*
Legal fees and expenses.....	400,000*
Directors' and Officers' Insurance.....	300,000*
Fees and expenses (including legal fees) for qualifications under state securities laws.....	5,000*
Transfer agent's fees and expenses.....	30,000*
Miscellaneous.....	94,632*
Total.....	<u>\$2,000,000*</u>

</TABLE>

* Estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law permits the Registrant to, and Article VIII of the Registrant's Amended and Restated Certificate of Incorporation provides that the Registrant shall, indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of the Registrant, or is or was servicing, or has agreed to serve, at the request of the Registrant, as a director, officer or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom.

Pursuant to the Underwriting Agreement, the Company and the Selling Stockholder have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

None.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) EXHIBITS

<TABLE>

<CAPTION>

EXHIBIT

NUMBER DESCRIPTION OF EXHIBIT

<C> <S>

- 1.1* Form of Underwriting Agreement
- 2.1* Agreement of Reorganization and Plan of Merger
- 3.1* Certificate of Incorporation
- 3.2+ Bylaws

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT

NUMBER DESCRIPTION OF EXHIBIT

<C> <S>

- 4.1* Form of Specimen Class A Common Stock Certificate
- 5.1* Opinion of Freshman, Marantz, Orlanski, Cooper & Klein, a law corporation
- 10.1+ Amended and Restated 1998 Stock Option, Deferred Stock and Restricted Stock Plan
- 10.2* 1998 Employee Stock Purchase Plan
- 10.3* Form of Employment Agreement between the Registrant and Robert Greenberg
- 10.4* Form of Employment Agreement between the Registrant and Michael Greenberg
- 10.5* Form of Employment Agreement between the Registrant and David Weinberg
- 10.6* Form of Indemnification Agreement between the Registrant and its directors and executive officers
- 10.7* Form of Registration Rights Agreement between the Registrant, the Greenberg Family Trust and Michael Greenberg
- 10.8* Tax Indemnification Agreement
- 10.9 Subordinated Promissory Note between the Registrant and the Greenberg Family Trust, dated December 22, 1998
- 10.10 Amended and Restated Loan and Security Agreement between the Registrant and Heller Financial, Inc., dated September 4, 1998
- 10.10(a) Term Loan A Note, dated September 4, 1998, between the Registrant and Heller Financial, Inc.
- 10.10(b) Revolving Note dated September 4, 1998, between the Registrant and Heller Financial, Inc.
- 10.10(c) First Amendment to Amended and Restated Loan and Security Agreement, dated September 11, 1998
- 10.10(d) Second Amendment to Amended and Restated Loan and Security Agreement, dated December 23, 1998.
- 10.11 Lease, dated April 15, 1998, between the Registrant and Holt/Hawthorn and Victory Partners, regarding 228 Manhattan Beach Boulevard, Manhattan Beach, California
- 10.12+ Commercial Lease Agreement, dated February 19, 1997, between the Registrant and Richard and Donna Piazza, regarding 1110 Manhattan Avenue, Manhattan Beach, California
- 10.13+ Lease, dated June 12, 1998, between the Registrant and Richard and Donna Piazza, regarding 1112 Manhattan Avenue, Manhattan Beach, California
- 10.14+ Lease, dated November 21, 1997, between the Registrant and The Prudential Insurance Company of America, regarding 1661 So. Vintage Avenue, Ontario, California
- 10.15+ Lease, dated November 21, 1997, between The Prudential Insurance Company of America, regarding 1777 So. Vintage Avenue, Ontario, California
- 10.16+ Commercial Lease, dated April 10, 1998, between the Registrant and Proficiency Ontario Partnership, regarding

5725 East Jurupa Street, Ontario, California

- 10.17 Lease and Addendum, dated June 11, 1998, between the Registrant and Dolores McNabb, regarding Suite 3 on the first floor of the north building, Suite 9 on the first floor of the south building at 904 Manhattan Avenue, Manhattan Beach, California
- 10.18 Addendum to Lease, dated September 14, 1998, between the Registrant and Dolores McNabb, regarding Suites 3, 4 and 5 on the second floor of the north building at 904 Manhattan Avenue, Manhattan Beach, California

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT

NUMBER DESCRIPTION OF EXHIBIT

- - - - -

<C> <S>

- 10.19 Promissory Note between the Registrant and the Greenberg Family Trust, dated December 22, 1998
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of KPMG LLP
- 23.2* Consent of Freshman, Marantz, Orlanski, Cooper & Klein (contained in exhibit 5.1)
- 24.1+ Power of attorney
- 27 Financial Data Schedule
- 99.1+ Consent of Richard Siskind as Nominated Director
- 99.2 Consent of John Quinn as Nominated Director

</TABLE>

- - - - -

* To be filed by amendment

+ Previously filed

(B) SCHEDULES

Schedule II -- Valuation and Qualifying Accounts

ITEM 17. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part

of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it is declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused Amendment No. 1 to this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Manhattan Beach, State of California on April 8, 1999.

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 Act of 1933, Amendment No. 1 to this Registration Statement has been signed by the following persons in the capacity indicated on April 8, 1999.

<TABLE>
<CAPTION>

SIGNATURE	TITLE
-----	----

<C>

<S>

*	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
---	--

Robert Greenberg

*	President and Director
---	------------------------

Michael Greenberg

/s/ DAVID WEINBERG	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)
--------------------	---

David Weinberg

*By: /s/ DAVID WEINBERG

David Weinberg
Attorney-in-fact

</TABLE>

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SCHEDULE II

SKECHERS U.S.A., INC.

VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

<TABLE>
<CAPTION>

DESCRIPTIONS	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS AND WRITE-OFFS	BALANCE AT END OF PERIOD
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
As of December 31, 1996				
Allowance for obsolescence.....	\$ 988,000	\$ 420,000	\$ (500,000)	\$ 908,000
Allowance for doubtful accounts.....	366,000	623,000	(694,000)	295,000
Reserve for sales returns and allowances.....	806,000	5,517,000	(5,498,000)	825,000
As of December 31, 1997				
Allowance for obsolescence.....	908,000	554,000	(554,000)	908,000
Allowance for doubtful accounts.....	295,000	1,878,000	(908,000)	1,265,000
Reserve for sales returns and allowances.....	825,000	5,463,000	(5,563,000)	725,000
As of December 31, 1998				
Allowance for obsolescence.....	908,000	64,000	(465,000)	507,000
Allowance for doubtful accounts.....	1,265,000	702,000	(501,000)	1,466,000
Reserve for sales returns and allowances.....	725,000	10,840,000	(9,618,000)	1,947,000

</TABLE>

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INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
-----	-----
<C>	<S>
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3.2+	Bylaws
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</TABLE>

<TABLE>

<CAPTION>

EXHIBIT

NUMBER

DESCRIPTION OF EXHIBIT

- - - - -

<C> <S>

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- 23.1 Consent of KPMG LLP
- 23.2* Consent of Freshman, Marantz, Orlanski, Cooper & Klein (contained in exhibit 5.1)
- 24.1+ Power of attorney
- 27 Financial Data Schedule
- 99.1+ Consent of Richard Siskind as Nominated Director
- 99.2 Consent of John Quinn as Nominated Director

</TABLE>

- - - - -
* To be filed by amendment

+ Previously filed

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SKECHERS U.S.A., INC.

EXHIBITS

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

EXHIBIT 10.9

SUBORDINATED PROMISSORY NOTE

\$10,000,000.00

December 22, 1998

SKECHERS U.S.A., INC., a California corporation ("Borrower"), for value received, promises to pay to the order of THE GREENBERG FAMILY TRUST, upon demand the sum of TEN MILLION DOLLARS (\$10,000,000).

Borrower also promises to pay interest monthly on the unpaid principal amount evidenced hereby from the date hereof until paid at the prime rate. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in that certain Subordination Agreement by and among Heller Financial, Inc. ("Heller"), Robert Y. Greenberg and M. Susan Greenberg, Trustees of The Greenberg Family Trust ("Payee") and Borrower (the "Subordination Agreement").

This Note is the Subordinated Note issued pursuant to and entitled to the benefits of the Subordination Agreement to which reference is hereby made for a more complete statement of the terms and conditions under which the indebtedness evidenced hereby are made and are to be repaid. All payments of principal and interest in respect of this Note shall be made in accordance with the terms of the Subordination Agreement.

1. Method of Payment. All payment of principal and interest in respect of this Note shall be made in lawful money of the United States of America to the Greenberg Family Trust, or at such other place as Payee may designate in writing for such purpose.

2. Subordination. Anything in this Note to the contrary notwithstanding, the indebtedness evidenced by this Note shall be subordinate and junior in right of payment to the Senior Debt to the extent and in the manner set forth in the Subordination Agreement.

3. Permitted Payments. This Note is subject to payment in accordance with the Subordination Agreement.

4. No Waiver; Remedies not Exclusive. No failure or delay by Payee in exercising any remedy, right, power or privilege under this Note shall operate as a waiver of such remedy, right, power or privilege nor shall any single or partial exercise of such remedy, right, power or privilege preclude any other or further exercise of such remedy, right, power or privilege or the exercise of any other remedy, right, power or privilege. No remedy, right, power or privilege conferred upon or reserved to Payee is intended to be exclusive of any other

remedy, right, power or privilege provided or permitted by this Note or by law, but each shall be cumulative and in addition to every other remedy, right, power or privilege so provided or permitted and each may be exercised concurrently or independently from time to time and as often as may be deemed expedient by Payee.

5. Waiver of Notices and Demands. Borrower hereby waives diligence, presentment, demand, protest, notices of protest, dishonor and nonpayment of this Note and all other notices of every kind whatsoever.

6. Severability. Any provision of this Note which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Note.

7. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed and delivered by its duly authorized officer.

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

Dated: December 22, 1998 By: /s/ DAVID WEINBERG

David Weinberg
Chief Financial Officer

EXHIBIT 10.10

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

DATED AS OF SEPTEMBER 4, 1998

BETWEEN

SKECHERS U.S.A., INC.

AS BORROWER,

AND

HELLER FINANCIAL, INC.,

AS AGENT AND AS LENDER

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AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS AGREEMENT is dated as of September 4, 1998, and entered into among SKECHERS U.S.A., INC., a California corporation ("Borrower"), the financial institution(s) listed on the signature pages hereof, and their respective successors and Eligible Assignees (each individually a "Lender" and collectively "Lenders") and HELLER FINANCIAL, INC., a Delaware corporation (in its individual capacity, "Heller"), for itself as Lender and as agent. This Agreement amends and restates the Loan and Security Agreement between Heller and Borrower originally dated June 21, 1993 (as subsequently amended, the "Original Agreement").

WHEREAS, Borrower desires that Lenders extend a credit facility to enable Borrower to retire certain of its existing Indebtedness (including Indebtedness incurred under the Original Agreement) and to provide working capital financing and to provide funds for other general corporate purposes;

WHEREAS, to secure Borrower's obligations under the Loan Documents, Borrower is granting to Agent, for benefit of Lenders, a security interest in and lien upon certain of Borrower's property;

WHEREAS, The Greenberg Family Trust ("Guarantor") is willing to guaranty certain of the Obligations of Borrower to Agent and Lenders under the Loan Documents and to grant to Agent, for benefit of Lenders, a security interest in the Guarantor Cash Collateral to secure such guaranty; and

WHEREAS, Skechers By Mail, Inc., a Delaware corporation ("Subsidiary Guarantor") and a Subsidiary of Borrower, has also agreed to guaranty the Obligations of Borrower to Agent under the Loan Documents;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, Borrower, Agent and Lenders agree as follows:

SECTION 1. DEFINITIONS AND ACCOUNTING TERMS

1.1 Certain Defined Terms. The capitalized terms and the accounting terms used in this Agreement shall have the meanings set forth in Section 11 of this Agreement:

SECTION 2. LOANS AND COLLATERAL

2.1 Loans.

(A)(1) Term Loan A. Each Lender, severally, agrees to lend to Borrower, on the Closing Date, its Pro Rata Share of Term Loan A which is in the aggregate amount of \$2,775,000. Term Loan A shall be funded in one drawing. Amounts borrowed under this subsection 2.1(A)(1) and repaid may not be reborrowed. Borrower shall make principal payments in the amount of the applicable Scheduled Installment of Term Loan A (or such lesser principal amount as shall be outstanding) on the dates set forth below.

"Scheduled Installment" of Term Loan A means a payment of \$25,000 on the first day of each month commencing October 1, 1998; provided, however, the entire Term Loan A shall be due and payable on Termination Date.

(A)(2) Term Loan B. Each Lender, severally, agrees to lend to Borrower on the Closing Date its Pro Rata Share of Term Loan B which is in the aggregate amount of \$13,250,000. Term Loan B shall be funded in one drawing. Amounts borrowed under this subsection 2.1(A)(2) and repaid may not be reborrowed. Borrower shall pay the entire Term Loan B in a single installment on the earlier of (i) the one year anniversary of the Closing Date, or (ii) the receipt by Borrower of any proceeds of an initial public offering.

(B) Revolving Loan. Each Lender, severally, agrees to lend to Borrower from time to time its Pro Rata Share of each Revolving Advance. The aggregate

amount of all Revolving Loan Commitments shall not exceed at any time \$120,000,000 as reduced by Section 2.4(B). Amounts borrowed under this subsection 2.1(B) may be repaid and reborrowed at any time prior to the earlier of (i) the termination of the Revolving Loan Commitment pursuant to subsection 8.3 or (ii) the Termination Date; provided, however, that Borrower shall reduce the Revolving Loan to an amount not greater than the Cleanup Amount for at least one Business Day each consecutive twenty one (21) day period. Except as otherwise provided herein, no Lender shall have any obligation to make a Revolving Advance to the extent such Revolving Advance would cause the Revolving Loan (after giving effect to any immediate application of the proceeds thereof) to exceed the Maximum Revolving Loan Amount.

(1) "Maximum Revolving Loan Amount" means, as of any date of determination, the lesser of (a) the Revolving Loan Commitment(s) of all Lenders less the Letter of Credit Reserve and (b) the Borrowing Base less (i) the Letter of Credit Reserve, (ii) the unpaid amount of Term Loan A and Term Loan B plus (iii) the amount of any outstanding Discretionary Advances; and

(2) "Borrowing Base" means, as of any date of determination, an amount equal to the sum of (a) 85% of Eligible Accounts plus (b) the lesser of (i) \$55,000,000, and (ii) 60% of Eligible Inventory (excluding Eligible Retail Inventory) plus (c) the lesser of (i) \$2,000,000 and (ii) fifty percent (50%) of the Eligible Retail Inventory plus (d) the Overadvance Amount; plus (e) the amount of Guarantor Cash Collateral; and less in each case such reserves as Agent in its reasonable discretion may elect to establish. Without limiting the generality of the foregoing, commencing thirty (30) days following the Closing Date, Agent may reserve from the Borrowing Base up to the amount of three months' rent in respect of each leased warehouse where there is located Eligible Inventory to the extent Agent has not received a Landlord Waiver and Consent in respect of such location.

(3) "Cleanup Amount" means the Borrowing Base less (i) the Letter of Credit Reserve, (ii) the amount of Guarantor Cash Collateral; (iii) the Overadvance Amount; and (iv) the amount of any outstanding Discretionary Advances.

(C) Eligible Collateral.

"Eligible Accounts" means, as at any date of determination, the aggregate of all Accounts that Agent, in its reasonable credit judgment, deems to be eligible for borrowing purposes. Without limiting the generality of the foregoing, the Requisite Lenders may determine that the following Accounts are not Eligible Accounts:

(1) Accounts which, at the date of issuance of the respective invoice therefor, were payable more than sixty (60) days after the date of issuance of such invoice, provided that thirty-five percent (35%) of the aggregate amount of Accounts outstanding at any one time that contain dating of more than sixty (60) but less than or equal to one hundred twenty (120) days after the issuance of any such invoice would be eligible; provided, however, that with respect to any one customer, Accounts that contains such dated terms may not exceed ten percent (10%) of the aggregate amount of Accounts outstanding at any one time from such customer;

(2) Accounts which remain unpaid for more than sixty (60) days after the due date specified in the original invoice or for more than one hundred twenty one (121) days after invoice date if no due date was specified;

(3) Accounts due from a customer whose principal place of business is located outside the United States of America (other than Accounts due from (i) Foot Locker Europe B.V. up to an aggregate outstanding amount of \$750,000 and (ii) Woolworth Canada, Inc. or its successor up to an aggregate outstanding amount of \$750,000), unless such Account is backed by a letter of credit, in form and substance acceptable to Agent, and issued or confirmed by a bank that is organized under the laws of the United States of America or a State thereof, that has capital and surplus in excess of \$250,000,000 and that is acceptable to Agent, provided that such letter of credit has been delivered to Agent as additional Collateral;

(4) Accounts which are otherwise eligible with respect to which the account debtor is owed a credit by Borrower, but only to the extent of such credit;

(5) Accounts due from an account debtor which Agent has notified Borrower does not have a satisfactory credit rating;

(6) Accounts with payment terms in excess of sixty (60) days with respect to which the account debtor is the United States of America, any state or any municipality, or any department, agency or instrumentality thereof unless Borrower has, with respect to such Accounts, complied with the Federal Assignment of Claims Act of 1940 as amended (31 U.S.C. Section 3727 et seq) or any applicable statute or municipal ordinance of similar purpose and effect;

(7) Accounts with respect to which the account debtor is an Affiliate of Borrower or a director, officer, agent, stockholder or employee of Borrower or any of its Affiliates (other than arms length Accounts owing by Division Six Sports, Inc. so long as such company is a factoring client of Heller);

(8) Accounts due from an account debtor if more than 25% of the aggregate amount of Accounts of such account debtor have at the time remained unpaid for more than sixty (60) days after due date or one hundred and twenty (120) days after the invoice date if no due date was specified;

(9) Accounts with respect to which there is any unresolved dispute with the respective account debtor (but only to the extent of such dispute);

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(10) Accounts evidenced by an "instrument" or "chattel paper" (as defined in the UCC) not in the possession of Agent, on behalf of Lenders;

(11) Accounts with respect to which Agent, on behalf of Lenders, does not have a valid, first priority and fully perfected security interest;

(12) Accounts subject to any lien except those in favor of Agent, on behalf of Lenders;

(13) Accounts with respect to which the account debtor is the subject of any bankruptcy or other insolvency proceeding;

(14) Accounts due from an account debtor to the extent that such Accounts exceed in the aggregate an amount equal to thirty percent (30%) of the aggregate of all Accounts at said date;

(15) Accounts with respect to which the account debtor's obligation to pay is conditional or subject to a repurchase obligation or right to return or with respect to which the goods or services giving rise to such Account have not been delivered (or performed, as applicable) and accepted by such account debtor, including progress billings, bill and hold sales, guaranteed sales, sale or return transactions, sales on approval or consignment sales;

(16) Accounts with respect to which the account debtor is located in New Jersey, or any other state denying creditors access to its courts in the absence of a Notice of Business Activities Report or other similar filing, unless Borrower has either qualified as a foreign corporation authorized to transact business in such state or has filed a Notice of Business Activities Report or similar filing with the applicable state agency for the then current year;

(17) Accounts with respect to which the customer is owed a credit balance by Borrower which remains unpaid for more than ninety (90) days (but only to the extent of such credit);

(18) Any Account with respect to which the customer is a Person to which Borrower is indebted, provided, however, that any such account shall only be ineligible as to that portion of such account which is less than or equal to the amount owed by Borrower to such Person; and

(19) Accounts with respect to which the account debtor is a creditor of Borrower, provided, however, that any such Account shall only be ineligible as to that portion of such Account which is less than or equal to the amount owed by Borrower to such Person.

"Eligible Inventory" means, as at any date of determination, the value (determined at the lower of cost or market on a first-in, first-out basis) of all Inventory owned by Borrower and located in the United States of America that Agent, in its reasonable credit judgment, deems to be eligible for borrowing purposes. Without limiting the generality of the foregoing, the Requisite Lenders may determine that the following is not Eligible Inventory: (a) work-in-process that is not readily marketable in its current form; (b) finished goods which do not meet the specifications of the purchase order for such goods; (c) Inventory which Agent determines, is unacceptable for borrowing purposes due to age, quality, type, category and/or quantity; (d) packaging, shipping materials or supplies consumed in Borrower's business; (e) Inventory with respect to which Agent, on behalf of Lenders, does not have a valid, first priority and fully perfected security interest; (f) Inventory with respect to which there exists any Lien in favor of any Person other than Agent, on behalf of Lenders; (g) Inventory produced in violation of the Fair Labor Standards Act and subject to the so-called "hot goods" provisions contained in Title 29 U.S.C. 215(a)(i) or any replacement statute; (h) Inventory located at any location not scheduled by Borrower; and (i) any finished goods inventory styled with a turn of greater than three hundred and sixty (360) days; provided, however, that any such style shall remain eligible if open orders exist in respect of greater than forty percent (40%) of the total such inventory on hand.

"Eligible Retail Inventory" means Eligible Inventory (a) which is located at any of the Borrower's retail locations for which Borrower has used its best commercial efforts to obtain for the benefit of Agent a Landlord Waiver and consent executed by the lessor or landlord of such location and (b) the proceeds of the sale of which are remitted by Borrower to a bank account or accounts blocked or controlled by Agent.

"Swingline Lender" means Heller, or if Heller shall resign as Swingline Lender, another lender selected by Agent and reasonably acceptable to Borrower.

(D) Swingline Loan. Agent may convert any request by Borrower for a Revolving Advance into a request for an Advance under the Swingline Loan. The Swingline Loan shall be a Base Rate Loan and shall not exceed in the aggregate at any time outstanding the Maximum Swingline Loan Amount. In the event that on any Business Day Swingline Lender desires that all or any portion of the Swingline Loan should be reduced in whole or in part, Swingline Lender shall promptly notify Agent to that effect and indicate the portion of the Swingline Loan to be reduced. Swingline Lender hereby agrees that it shall notify Agent to reduce the Swingline Loan to \$0 at least once every rolling, consecutive twenty one (21) day period. Agent agrees to promptly transmit to Lenders the information contained in each notice received by Agent from Swingline Lender and shall concurrently notify Lenders of each Lender's Pro Rata Share of the obligation to make a Revolving Advance to repay the Swingline Loan (or portion thereof).

Each of the Lenders hereby unconditionally and irrevocably agrees to fund to Agent for the benefit of Swingline Lender, in lawful money of the United States and in same day funds, not later than 1:00 p.m. Central time on the Business Day immediately following the Business Day of such Lender's receipt of such notice from Agent (provided that if any Lender shall receive such notice at or prior to 11:00 a.m. Central time on a Business Day, such funding shall be made by such Lender on such Business Day), such Lender's Pro Rata Share of a Revolving Advance (which Revolving Advance shall be a Base Rate Loan and shall be deemed to be requested by Borrower) in the principal amount of such portion of the Swingline Loan which is required to be paid to Swingline Lender under this subsection 2.1(D) (regardless of whether the conditions precedent thereto set forth in Section 3 and the Conditions Rider are then satisfied and whether or not Borrower has provided a notice of borrowing under subsection 2.1(E) and whether or not any Default or Event of Default exists or all or any of the Loans have been accelerated, but subject to the other provisions of this subsection 2.1(D). The proceeds of any such Revolving Advance shall be immediately paid over to Agent for the benefit of Swingline Lender for application applied by Agent to the Swingline Loan.

In the event that an Event of Default shall occur and either (i) such Event of Default is of the type described in subsection 8.1(G) or (H) hereof or (ii) no further Revolving Advances are being made under this Agreement, so long as any such Event of Default is continuing, then, each of the Lenders (other than Swingline Lender) shall be deemed to have irrevocably, unconditionally and immediately purchased from Swingline Lender such Lender's pro rata share of the Swingline Loan outstanding as of the date of the occurrence of such Event of Default. Each Lender shall effect such purchase by making available an amount equal to its participation on the due date of such purchase in U.S. Dollars in immediately available funds to Agent's Accounts for the benefit of Swingline Lender. In the event any Lender fails to make available to Swingline Lender when due the amount of such Lender's participation in the Swingline Loan, Swingline Lender shall be entitled to recover such amount on demand from such Lender together with interest at the Federal Funds Effective Rate. Each such purchase by a Lender shall be made without recourse to Swingline Lender, without representation or warranty of any kind, and shall be effected and evidenced pursuant to documents reasonably acceptable to Swingline Lender. The obligations of the Lenders under this subsection 2.1(D) shall be absolute, irrevocable and unconditional, shall be made under all circumstances and shall not be affected, reduced or impaired for any reason whatsoever.

(E) Borrowing Mechanics. (1) LIBOR Loans made on any Funding Date shall be in an aggregate minimum amount of \$500,000 and integral multiples of \$100,000 in excess of such amount. (2) On any day when Borrower desires an advance under this subsection 2.1, Borrower shall give Agent telephonic notice of the proposed borrowing by 11:00 a.m. Central time on the Funding Date of a Base Rate Loan and three Business Days in advance of the Funding Date of a LIBOR Loan, which notice (a "Notice of Borrowing") shall specify the proposed Funding Date (which shall be a Business Day), whether such Loans shall consist of Base Rate Loans or LIBOR Loans, and, for LIBOR Loans, the Interest Period applicable thereto. Any such telephonic notice shall be confirmed in writing on the same day. Neither Agent nor Lender shall incur any liability to Borrower for acting upon any telephonic notice Agent believes in good faith to have been given by a duly authorized officer or other person authorized to borrow on behalf of Borrower or for otherwise acting in good faith under this subsection 2.1(E). Neither Agent nor Lender will be required to make any advance pursuant to any telephonic notice unless Agent has also received the most recent Borrowing Base Certificate and all other documents required under Section 3 and the Reporting Rider hereof by 11:00 a.m. Central time. Each Advance shall be deposited by wire transfer in immediately available funds in such account as Borrower may from time to time designate to Agent in writing. The becoming due of any amount required to be paid under this Agreement or any of the other Loan Documents as principal, accrued interest and fees shall be deemed irrevocably to be on automatic request by Borrower for a Revolving Advance, which shall be a Base Rate Loan on the due date of, and in the amount required to pay (as set forth on Agent's books and records), such principal, accrued interest and fees.

(F) Notes. Borrower shall execute and deliver to each Lender with appropriate insertions a Note to evidence such Lender's Commitments. In the event of an assignment under subsection 9.5, Borrower shall, upon surrender of the assigning Lender's Notes, issue new Notes to reflect the interest held by the assigning Lender and its Eligible Assignee.

(G) Letters of Credit. The Revolving Loan Commitments, may, in addition to Revolving Advances, be utilized, upon the request of Borrower, for (i) the issuance of letters of credit by Agent; or with Agent's consent any Lender, or (ii) issuance by Agent of risk participations to banks to induce such banks to issue Bank Letters of Credit or bank acceptances ("Bank Acceptances") for the account of Borrower (each of (i) and (ii) above a "Lender Letter of Credit"). Each Lender shall be deemed to have purchased a participation in each Lender Letter of Credit issued on behalf of Borrower in an amount equal to its Pro Rata Share thereof. In no event shall any Lender Letter of Credit be issued to the extent that the issuance of such Lender Letter of Credit would cause the sum of the Letter of Credit Reserve (after giving effect to such issuance) plus the Revolving Loan to exceed the lesser of (x) the Borrowing Base and (y) the Revolving Loan Commitment.

(1) Maximum Amount. The aggregate amount of Bank Acceptances outstanding at any time shall not exceed \$9,000,000. The aggregate amount of Letter of Credit Liability with respect to all Lender Letters of Credit outstanding at any time shall not exceed \$18,000,000.

(2) Reimbursement. Borrower shall be irrevocably and

unconditionally obligated forthwith without presentment, demand, protest or other formalities of any kind, to reimburse Agent or the issuer for any amounts paid with respect to a Lender Letter of Credit including all fees, costs and expenses paid to any bank that issues a Bank Letter of

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Credit. Borrower hereby authorizes and directs Agent, at Agent's option, to debit Borrower's account (by increasing the Revolving Loan) in the amount of any payment made with respect to any Lender Letter of Credit. In the event that Agent elects not to debit Borrower's account and Borrower fails to reimburse Agent in full on the date of any payment under a Lender Letter of Credit, Agent shall promptly notify each Lender of the unreimbursed amount of such payment together with accrued interest thereon and each Lender, on the next Business Day, shall deliver to Agent an amount equal to its respective participation in same day funds. The obligation of each Lender to deliver to Agent an amount equal to its respective participation pursuant to the foregoing sentence shall be absolute and unconditional and such remittance shall be made notwithstanding the occurrence or continuation of an Event of Default or Default or the failure to satisfy any condition set forth in Section 3. In the event any Lender fails to make available to Agent the amount of such Lender's participation in such Lender Letter of Credit, Agent shall be entitled to recover such amount on demand from such Lender together with interest at the Base Rate.

(3) Request for Letters of Credit. Borrower shall give Agent at least one (1) Business Days prior notice specifying the date a Lender Letter of Credit is to be issued, identifying the beneficiary and describing the nature of the transactions proposed to be supported thereby. The notice shall be accompanied by the form of the letter of credit being requested. Any letter of credit which Borrower requests must be in such form, be for such amount, contain such terms and support such transactions as are reasonably satisfactory to Agent. The expiration date of each Lender Letter of Credit shall be on a date which is at least 30 days prior to the Termination Date, unless otherwise agreed to by Agent.

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(H) Other Letter of Credit Provisions.

(1) Obligations Absolute. The obligation of Borrower to reimburse Agent or any Lender for payments made under, and other amounts payable in connection with, any Lender Letter of Credit shall be unconditional and irrevocable and shall be paid under all circumstances strictly in accordance with the terms of this Agreement including, without limitation, the following circumstances:

(a) any lack of validity or enforceability of any Lender Letter of Credit, or any other agreement;

(b) the existence of any claim, set-off, defense or other right which Borrower, any of its Affiliates, Agent or any Lender, on the one hand, may at any time have against any beneficiary or transferee of any Lender Letter of Credit (or any Persons for whom any such transferee may be acting), Agent, any Lender or any other Person, on the other hand, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction (including any underlying transaction between Borrower or any of its Affiliates and the beneficiary of the Lender Letter of Credit);

(c) any draft, demand, certificate or any other document presented under any Lender Letter of Credit is alleged to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or

(d) payment under any Lender Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Lender Letter of Credit; provided that, in the

case of any payment by Agent or a Lender under any Lender Letter of Credit, Agent or such Lender has not acted with gross negligence or willful misconduct (as determined by a court of competent jurisdiction) in determining that the demand for payment under such Letter of Credit complies on its face with any applicable requirements for a demand for payment under such Lender Letter of Credit.

(2) Nature of Lender's Duties. As between any Lender that issues a Lender Letter of Credit (an "Issuing Lender"), on the one hand, and all Lenders on the other hand, all Lenders assume all risks of the acts and omissions of, or misuse of any Lender Letter of Credit by the beneficiary thereof. In furtherance and not in limitation of the foregoing, neither Agent nor any Issuing Lender shall be responsible: (a) for the form, validity, sufficiency, accuracy, genuineness or legal effect of any document by any party in connection with the application for and issuance of any Lender Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (b) for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Lender Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (c) for failure of the beneficiary of any Lender Letter of Credit to comply fully with conditions required in order to demand payment thereunder; provided that, in the case of any payment under any such Lender Letter of Credit, any Issuing Lender has not acted with gross negligence or willful misconduct (as determined by a court of competent jurisdiction) in determining that the demand for payment under any such Lender Letter of Credit complies on its face with any applicable requirements for a demand for payment thereunder; (d) for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (e) for errors in interpretation of technical terms; (f) for any loss or delay in the transmission or otherwise of any document required in order to make a payment under any such Lender Letter of Credit; (g) for the credit of the proceeds of any drawing under any such Lender Letter of Credit; and (h) for any consequences arising from causes beyond the control of Agent or any Lender as the case may be.

(3) Liability. In furtherance and extension of and not in limitation of, the specific provisions herein above set forth, any action taken or omitted by Agent or any Lender under or in connection with any Lender Letter of Credit, if taken or omitted in good faith, shall not put Agent or any Lender under any resulting liability to Borrower or any other Lender.

(I) Availability of a Lender's Pro Rata Share.

(1) Unless Agent receives written notice from a Lender on or prior to any Funding Date that such Lender will not make available to Agent as and when required such Lender's Pro Rata Share of any requested Loan or Advance, Agent may assume that each Lender will make such amount available to Agent in immediately available funds on the Funding Date and Agent may (but shall not be so required), in reliance upon such assumption, make available to Borrower on such date a corresponding amount.

(2) A Defaulting Lender shall pay interest at the Federal Funds Effective Rate plus fifty basis points on the Defaulted Amount from the Business Day following the applicable Funding Date of such Defaulted Amount until the date such Defaulted Amount is paid to Agent. A notice of Agent submitted to any Lender with respect to amounts owing under this subsection shall be conclusive, absent manifest error. If such amount is not paid when due to Agent, Agent, at its option, may notify Borrower of such failure to fund and, upon demand by Agent, Borrower shall pay the unpaid amount to Agent for Agent's account, together with interest thereon for each day elapsed since the date of such borrowing, at a rate per annum equal to the interest rate applicable at the time to the Loan made by the other Lenders on such Funding Date. The failure of any Lender to make available any portion of its Commitment on any Funding Date or to fund its participation in a Lender Letter of Credit or Swingline Loan shall not relieve any other Lender of any obligation hereunder to fund such Lender's Commitment on such Funding Date or to fund any such participation, but no Lender shall be responsible for the failure of any other Lender to honor its Commitment on any Funding Date or to fund any participation to be funded by any other Lender.

(3) Agent shall not be obligated to transfer to a Defaulting Lender any payment made by Borrower to Agent or any amount otherwise received by

Agent for application to the Obligations nor shall a Defaulting Lender be entitled to the sharing of any interest, fees or payments hereunder.

(4) For purposes of voting or consenting to matters with respect to (i) the Loan Documents or (ii) any other matter concerning the Loans, a Defaulting Lender shall be deemed not to be a "Lender" and such Lender's Commitments and outstanding Loans and Advances shall be deemed to be zero.

2.2 Interest.

(A) Rate of Interest. Term Loan A, Term Loan B, and any Swingline Loan shall be Base Rate Loans. Revolving Loans may be Base Rate Loans or LIBOR Loans, subject to the terms hereof. The Loans and all other Obligations shall bear interest from the date such Loans are made or such other Obligations become due to the date paid at a rate per annum equal to (i) in the case of Base Rate Loans and Obligations for which no other interest rate is specified, the Base Rate plus (a) 0.25% with respect to the Revolving Loan, Swingline Loan and other Obligations for which no other interest rate is specified, (b) 1.0% with respect to Term Loan A and (c) 0.25% with respect to Term Loan B; and (ii) in the case of LIBOR Loans, LIBOR plus 2.75% (collectively, the "Interest Rate"). Subject to the provisions of subsection 2.1(E), Borrower shall designate to Agent whether a Loan shall be a Base Rate or LIBOR Rate Loan at the time a Notice of Borrowing is given pursuant to subsection 2.1(E). Such designation by Borrower may be changed from time to time pursuant to subsection 2.2(D). If on any day a Loan or a portion of any Loan is outstanding with respect to which notice has not been delivered to Agent in accordance with the terms of this Agreement specifying the basis for determining the rate of interest or if LIBOR has been specified and no LIBOR quote is available, then for that day that Loan or portion thereof shall bear interest determined by reference to the Base Rate.

After the occurrence and during the continuance of an Event of Default (i) the Loans and all other Obligations shall, at the option of Requisite Lenders, bear interest at a rate per annum equal to 2% plus the applicable Interest Rate (the "Default Rate"), (ii) each LIBOR Loan shall automatically convert to a Base Rate Loan at the end of any applicable Interest Period and (iii) no Loans may be converted to LIBOR Loans.

(B) Computation and Payment of Interest. Interest on the Loans and all other Obligations shall be computed on the daily principal balance on the basis of a 360 day year for the actual number of days elapsed. In computing interest on any Loan, the date of funding of the Loan or the first day of an Interest Period applicable to such Loan or, with respect to a Base Rate Loan being converted from a LIBOR Loan, the date of conversion of such LIBOR Loan to such Base Rate Loan, shall be included; and the date of payment of such Loan or the expiration date of an Interest Period applicable to such Loan, or with respect to a Base Rate Loan being converted to a LIBOR Loan, the date of conversion of such Base Rate Loan to such LIBOR Loan, shall be excluded; provided that if a Loan is repaid on the same day on which it is made, one day's interest shall be paid on that Loan. Interest on Base Rate Loans and all other Obligations other than LIBOR Loans shall be payable to Agent for benefit of Lenders monthly in arrears on the first day of each month, on the date of any prepayment of Loans, and at maturity, whether by acceleration or otherwise. Interest on LIBOR Loans shall be payable to Agent for benefit of Lenders ninety days after the commencement of any Interest Period for such Loan, on the last day of the applicable Interest Period for such Loan, on the date of any prepayment of the Loan, and at maturity, whether by acceleration or otherwise.

(C) Interest Laws. Notwithstanding any provision to the contrary contained in this Agreement or any other Loan Document, Borrower shall not be required to pay, and neither Agent nor any Lender shall be permitted to collect, any amount of interest in excess of the maximum amount of interest permitted by applicable law ("Excess Interest"). If any Excess Interest is provided for or determined by a court of competent jurisdiction to have been provided for in this Agreement or in any other Loan Document, then in such event: (1) the provisions of this subsection shall govern and control; (2) neither Borrower nor any other Loan Party shall be obligated to pay any Excess Interest; (3) any Excess Interest that Agent or any Lender may have received hereunder shall be, at such Lender's option, (a) applied as a credit against the outstanding principal balance of the Obligations or accrued and unpaid interest (not to exceed the maximum amount permitted by law), (b) refunded to the payor thereof, or (c) any combination of the foregoing; (4) the interest rate(s) provided for herein shall be automatically reduced to the maximum lawful rate allowed from time to time under applicable law (the "Maximum Rate"), and this

Agreement and the other Loan Documents shall be deemed to have been and shall be, reformed and modified to reflect such reduction; and (5) neither Borrower nor any Loan Party shall have any action against Agent or any Lender for any damages arising out of the payment or collection of any Excess Interest. Notwithstanding the foregoing, if for any period of time interest on any Obligation is calculated at the Maximum Rate rather than the applicable rate under this Agreement, and thereafter such applicable rate becomes less than the Maximum Rate, the rate of interest payable on such Obligations shall remain at the Maximum Rate until each Lender shall have received the amount of interest which such Lender would have received during such period on such Obligations had the rate of interest not been limited to the Maximum Rate during such period.

(D) Conversion or Continuation. Subject to the provisions of this subsection 2.2, Borrower shall have the option to (1) convert at any time all or any part of outstanding Loans equal to \$500,000 and integral multiples of \$100,000 in excess of that amount from Base Rate Loans to LIBOR Loans or (2) upon the expiration of any Interest Period applicable to a

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LIBOR Loan, to (a) continue all or any portion of such LIBOR Loan equal to \$500,000 and integral multiples of \$100,000 in excess of that amount as a LIBOR Loan or (b) convert all or any portion of such LIBOR Loan to a Base Rate Loan. The succeeding Interest Period(s) of such continued or converted Loan commence on the last day of the Interest Period of the Loan to be continued or converted; provided that no outstanding Loan may be continued as, or be converted into, a LIBOR Loan, when any Event of Default or Default has occurred and is continuing.

Borrower shall deliver a notice of conversion/continuation in the form of Exhibit "F" hereto to Agent no later than 11:00 a.m. (Central time) at least 3 Business Days in advance of the proposed conversion/continuation date ("Notice of Conversion/Continuation"). A Notice of Conversion/Continuation shall certify: (1) the proposed conversion/continuation date (which shall be a Business Day); (2) the amount of the Loan to be converted/continued; (3) the nature of the proposed conversion/continuation; (4) in the case of conversion to, or a continuation of, a LIBOR Loan, the requested Interest Period; and (5) that no Default or Event of Default has occurred and is continuing or would result from the proposed conversion/continuation.

In lieu of delivering the Notice of Conversion/Continuation, Borrower may give Agent telephonic notice by the required time of any proposed conversion/continuation under this subsection 2.2(D); provided that such notice shall be promptly confirmed in writing by delivery of a Notice of Conversion/Continuation to Agent on or before the proposed conversion/continuation date.

Neither Agent nor any Lender shall incur any liability to Borrower in acting upon any telephonic notice referred to above that Agent believes in good faith to have been given by an officer or other person authorized to act on behalf of Borrower or for otherwise acting in good faith under this subsection 2.2(D).

2.3 Fees.

(A) Unused Line Fee. Borrower shall pay to Agent, for the benefit of Lenders, a fee in an amount equal to the Revolving Loan Commitment less the sum of (i) the average daily balance of each of the Revolving Loan and the Swingline Loan plus, (ii) the average daily face amount of the Letter of Credit Reserve during the preceding month, multiplied by 0.25% per annum, such fee to be calculated on the basis of a 360 day year for the actual number of days elapsed and to be payable monthly in arrears on the first day of each month following the Closing Date.

(B) Other Fees and Expenses. Borrower shall pay to Agent, for Agent's own account, such other fees and charges as set forth in Agent's Fee Letter.

2.4 Payments and Prepayments.

(A) Manner and Time of Payment. In its sole discretion, Agent

may elect to honor the automatic requests by Borrower for Revolving Advances for all principal, interest, fees and any other amounts due hereunder on their applicable due dates pursuant to subsection 2.1, and the proceeds of each such Advance, if made, shall be applied as a direct payment of the relevant Obligation. If Agent elects to bill Borrower for any amount due hereunder, such amount shall be immediately due and payable with interest thereon as provided herein. All payments made by Borrower with respect to the Obligations shall be made without deduction, defense, setoff or counterclaim. All payments to Agent hereunder shall, unless otherwise directed by Agent, be made to Agent's Account or in accordance with subsection 4.26. Proceeds remitted to Agent's Account shall be credited to the Obligations on the Business Day such proceeds were received.

(B) Mandatory Prepayments.

(1) Overadvance. At any time that the sum of the Revolving Loan and Swingline Loan exceeds the Maximum Revolving Loan Amount, Borrower shall, immediately repay the Revolving Loan and/or Swingline Loan to the extent necessary to reduce the aggregate principal balance to an amount equal to or less than the Maximum Revolving Loan Amount.

(2) Proceeds of Asset Dispositions. Immediately upon receipt by Borrower or any of its Subsidiaries of proceeds of any Asset Disposition (in one or a series of related transactions), which proceeds exceed \$5,000 (it being understood that if the proceeds exceed \$5,000, the entire amount and not just the portion above \$5,000 shall be subject to this subsection 2.4(B)(2), Borrower shall prepay the Obligations in an amount equal to such proceeds. All such prepayments shall first be applied in payment of Scheduled Installments of Term Loan A in inverse order of maturity and, at any time after Term Loan A shall have been repaid in full, such payments shall be applied as a permanent reduction of the Revolving Loan Commitment. If Borrower reasonably expects the proceeds of any Asset Disposition to be reinvested within 180 days to repair or replace such assets with like assets, Borrower shall deliver the proceeds to Agent to be applied to the Revolving Loan and Agent shall establish a reserve against available funds for borrowing purposes under the Revolving Loan for such amount, until such time as such proceeds have been re-borrowed or applied to other Obligations as set forth herein. Borrower may, so long as no Default or Event of Default shall have occurred and be continuing, re-borrow such proceeds only for such repair or replacement. If Borrower fails to reinvest such proceeds within 180 days, Borrower hereby authorizes Lenders to make a Revolving Advance to repay the Obligations in the manner set forth in this subsection 2.4(B)(2).

(C) Voluntary Prepayments and Repayments. Except as provided in subsection 2.4(B), Borrower's Obligations may only be prepaid or repaid in full and not in part. Borrower may, at any time upon not less than three Business Days prior notice to Agent, prepay the Term Loans or terminate the Revolving Loan Commitment; provided, however, the Revolving Loan Commitment may not be terminated by Borrower until all Loans are paid in full. Upon termination of the Revolving Loan Commitment, Borrower shall cause Agent and each Lender to be released from all liability under any Lender Letters of Credit or, at Agent's option, Borrower will deposit cash collateral with Agent in an amount equal to 105% of the Letter of Credit Liability that will remain outstanding after such termination.

(D) Payments on Business Days. Whenever any payment to be made hereunder shall be stated to be due on a day that is not a Business Day, the payment may be made on the next succeeding Business Day and such extension of time shall be included in the computation of the amount of interest or fees due hereunder.

2.5 Term of this Agreement. This Agreement shall be effective until December 31, 2002 (the "Original Term") and shall automatically renew from year to year thereafter (each such year a "Renewal Term") unless terminated by (a) Borrower giving to Agent or (b) any Lender giving to Borrower and Agent not less than 60 days prior written notice of its intention to terminate at the end of the Original Term or at the end of any Renewal Term (the "Termination Date"). The Commitments shall (unless earlier terminated) terminate upon the earlier of (i) the occurrence of an event specified in subsection 8.3 or (ii) the Termination Date. Upon termination in accordance with subsection 8.3 or on the Termination Date, all Obligations shall become immediately due and payable without notice or demand. Notwithstanding any termination, until all Obligations have been fully paid and satisfied, agent, on behalf of Lenders, shall be

entitled to retain security interests in and liens upon all Collateral, and even after payment of all Obligations hereunder, Borrower's obligation to indemnify Agent and each Lender in accordance with the terms hereof shall continue.

2.6 Statements. Agent shall render a monthly statement of account to Borrower within 20 days after the end of each month. Such statement of account shall constitute an account stated unless Borrower makes written objection thereto within 30 days from the date such statement is mailed to Borrower. Agent shall record in its books and records, including computer records, the principal amount of the Loan[s] owing to each Lender from time to time. Agent's books and records including computer records, shall constitute presumptive evidence, absent manifest error, of the accuracy of the information contained therein. Failure by Agent to make any such notation or record shall not affect the obligations of Borrower[s] to Lenders with respect to the Loans.

2.7 Grant of Security Interest. To secure the payment and performance of the Obligations, including all renewals, extensions, restructurings and refinancings of any or all of the Obligations, Borrower hereby grants to Agent, on behalf of Lenders, a continuing security interest, lien and mortgage in and to all right, title and interest of Borrower in all of Borrower's personal and real property, whether now owned or existing or hereafter acquired or arising and regardless of where located (all being collectively referred to as the "Collateral") including, without limitation, (A) Accounts, and all guaranties and security therefor, and all goods and rights represented thereby or arising therefrom including the rights of stoppage in transit, replevin and reclamation; (B) Inventory; (C) general intangibles (as defined in the UCC); (D) documents (as defined in the UCC) or other receipts covering, evidencing or representing goods; (E) instruments (as defined in the UCC); (F) chattel paper (as defined in the UCC); (G) Equipment; (H) investment property (as defined in the UCC) including, without limitation, all securities (certificated and uncertificated) security accounts, security entitlements, commodity contracts and commodity accounts; (I) Intellectual Property; (J) all deposit accounts of Borrower maintained with any bank or financial institution; (K) all cash and other monies and property of Borrower in the possession or under the control of Agent, any Lender or any participant; (L) all books, records, ledger cards, files, correspondence, computer programs, tapes, disks and related data processing software that any time evidence or contain information relating to any of the property described above or are otherwise necessary or helpful in the collection thereof or realization thereon; and (M) proceeds and products of all or any of the property described above, including, without limitation, the proceeds of any insurance policies covering any of the above described property.

2.8 Capital Adequacy and Other Adjustments. In the event Agent or any Lender shall have determined that the adoption after the date hereof of any law, treaty, governmental (or quasi-governmental) rule, regulation, guideline or order regarding capital adequacy, reserve requirements or similar requirements or compliance by Agent or such Lender or any corporation controlling Agent or such Lender with any request or directive regarding capital adequacy, reserve requirements or similar requirements (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) from any central bank or governmental agency or body having jurisdiction does or shall have the effect of increasing the amount of capital, reserves or other funds required to be maintained by Agent or such Lender or any corporation controlling Agent or such Lender and thereby reducing the rate of return on Agent's or such Lender's or such corporation's capital as a consequence of its obligations hereunder, then Borrower shall within 15 days after notice and demand from such Lender (with a copy to Agent) or Agent (together with the certificate referred to in the next sentence) pay to Agent or such Lender additional amounts sufficient to compensate Agent or such Lender for such reduction. A certificate as to the amount of such cost and showing the basis of the computation of such cost submitted by Agent or any Lender to Borrower shall, absent manifest error, be final, conclusive and binding for all purposes.

2.9 Taxes.

(A) No Deductions. Any and all payments or reimbursements made hereunder shall be made free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto; excluding, however, the following: taxes imposed on the net income of any Lender or Agent by the jurisdiction under the laws of which Agent or such Lender is organized or doing business or any political subdivision thereof and taxes imposed on its net income by the jurisdiction of Agent's or such Lender's applicable lending office or any political subdivision thereof

(all such taxes, levies, imposts, deductions, charges or withholdings and all liabilities with respect thereto excluding such taxes imposed on net income, herein "Tax Liabilities"). If Borrower shall be required by law to deduct any such Tax Liabilities from or in respect of any sum payable hereunder to Agent or any Lender, then the sum payable hereunder shall be

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increased as may be necessary so that, after making all required deductions, Agent or such Lender receives an amount equal to the sum it would have received had no such deductions been made.

(B) Changes in Tax Laws. In the event that, subsequent to the Closing Date, (i) any changes in any existing law, regulation, treaty or directive or in the interpretation or application thereof, (ii) any new law, regulation, treaty or directive enacted or any interpretation or application thereof, or (iii) compliance by Lender with any request or directive (whether or not having the force of law) from any governmental authority, agency or instrumentality:

(1) does or shall subject Agent or any Lender to any tax of any kind whatsoever with respect to this Agreement, the other Loan Documents or any Loans made or Lender Letters of Credit issued hereunder, or change the basis of taxation of payments to Agent or such Lender of principal, fees, interest or any other amount payable hereunder (except for net income taxes, or franchise taxes imposed in lieu of net income taxes, imposed generally by federal, state or local taxing authorities with respect to interest or commitment or other fees payable hereunder or changes in the rate of tax on the overall net income of Agent or such Lender); or

(2) does or shall impose on Agent or any Lender any other condition or increased cost in connection with the transactions contemplated hereby or participations herein; and the result of any of the foregoing is to increase the cost to Agent or such Lender of issuing any Lender Letter of Credit or making or continuing any Loan hereunder, as the case may be, or to reduce any amount receivable hereunder; then, in any such case, Borrower shall promptly pay to Agent or such Lender, upon its demand, any additional amounts necessary to compensate Agent or such Lender, on an after-tax basis, for such additional cost or reduced amount receivable, as determined by Agent or such Lender with respect to this Agreement or the other Loan Documents. If Agent or any Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify Borrower of the event by reason of which Agent or such Lender has become so entitled (with any such Lender concurrently notifying Agent). A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Agent or any Lender to Borrower shall, absent manifest error, be final, conclusive and binding for all purposes.

(C) Foreign Lenders. Each Lender organized under the laws of a jurisdiction outside the United States (a "Foreign Lender") as to which payments to be made under this Agreement are exempt from United States withholding tax or are subject to United States withholding tax at a reduced rate under an applicable statute or tax treaty shall provide to Borrower and Agent (i) a properly completed and executed Internal Revenue Service Form 4224 or Form 1001 or other applicable form, certificate or document prescribed by the Internal Revenue Service of the United States certifying as to such Foreign Lender's entitlement to such exemption or reduced rate of withholding with respect to payments to be made to such Foreign Lender under this Agreement, (a "Certificate of Exemption"), or (ii) a letter from any such Foreign Lender stating that it is not entitled to any such exemption or reduced rate of withholding (a "Letter of Non-Exemption"). Prior to becoming a Lender under this Agreement and within 15 days after a reasonable written request of Borrower or Agent from time to time thereafter, each Foreign Lender that becomes a Lender under this Agreement shall provide a Certificate of Exemption or a Letter of Non-Exemption to Borrower and Agent.

If a Foreign Lender is entitled to an exemption with respect to payments to be made to such Foreign Lender under this Agreement (or to a reduced rate of withholding) and does not provide a Certificate of Exemption to Borrower and Agent within the time periods set forth in the preceding paragraph, Borrower shall withhold taxes from payments to such Foreign Lender at the

applicable statutory rates and Borrower shall not be required to pay any additional amounts as a result of such withholding; provided, however, that all such withholding shall cease upon delivery by such Foreign Lender of a Certificate of Exemption to Borrower and Agent.

2.10 Required Termination and Prepayment. If on any date any Lender shall have reasonably determined (which determination shall be final and conclusive and binding upon all parties) that the making or continuation of its LIBOR Loans has become unlawful or impossible by compliance by Lender in good faith with any law, governmental rule, regulation or order (whether or not having the force of law and whether or not failure to comply therewith would be unlawful), then, and in any such event, that Lender shall promptly give notice (by telephone confirmed in writing) to Borrower and Agent of that determination. Subject to prior withdrawal of a Notice of Borrowing or a Notice of Conversion/Continuation or prepayment of LIBOR Loans as contemplated by subsection 2.12, the obligation of Lender to make or maintain its LIBOR Loans during any such period shall be terminated at the earlier of the termination of the Interest Period then in effect or when required by law and Borrower shall no later than the termination of the Interest Period in effect at the time any such determination pursuant to this subsection 2.10 is made or, earlier when required by law, repay or prepay LIBOR Loans together with all interest accrued thereon or convert LIBOR Loans to Base Rate Loans.

2.11 Optional Prepayment/Replacement of Agent or Lenders in Respect of Increased Costs. Within 15 days after receipt by Borrower of written notice and demand from Agent or any Lender (an "Affected Lender") for payment of additional costs as provided in subsection 2.8 or subsection 2.9, Borrower may, at its option, notify Agent and such Affected Lender of its intention to do one of the following:

(a) Borrower may obtain, at Borrower's expense, a replacement Lender ("Replacement Lender") for such Affected Lender, which Replacement Lender shall be reasonably satisfactory to Agent. In the event Borrower obtains a Replacement Lender within 90 days following notice of its intention to do so, the Affected Lender shall sell and assign its Loans and Commitments to such Replacement Lender provided, that Borrower has reimbursed such Affected Lender for its increased costs for which it is entitled to reimbursement under this Agreement through the date of such sale and assignment; or

(b) Borrower may prepay in full all outstanding obligations owed to such Affected Lender and terminate such Affected Lender's Commitments. Borrower shall, within 90 days following notice of its intention to do so, prepay in full all outstanding Obligations owed to such Affected Lender, including such Affected Lender's increased costs for which it is entitled to reimbursement under this Agreement through the date of such prepayment and terminate such Affected Lender's Commitments.

2.12 Compensation. Borrower shall compensate a Lender, upon written request by such Lender (which request shall set forth in reasonable detail the basis for requesting such amounts and which shall, absent manifest error, be conclusive and binding upon all parties hereto), for all reasonable losses, expenses and liabilities including, without limitation, any loss sustained by such Lender in connection with the re-employment of such funds: (i) if for any reason (other than a default by Lender) a borrowing of any LIBOR Loan does not occur on a date specified therefor in a Notice of Borrowing, a Notice of Conversion/Continuation or a telephonic notice for borrowing or Conversion/Continuation; (ii) if any prepayment of any of its LIBOR Loans occurs on a date that is not the last day of an Interest Period applicable to that Loan; (iii) if any prepayment of any of its LIBOR Loans is not made on any date specified in a notice of prepayment given by Borrower; or (iv) as a consequence of any other default by Borrower to repay its LIBOR Loans when required by the terms of this Agreement; provided that during the period while any such amounts have not been paid, Lender shall reserve an equal amount from amounts otherwise available to be borrowed under the Revolving Loan Commitment.

2.13 Booking of LIBOR Loans. Each Lender may make, carry or transfer LIBOR Loans at, to, or for the account of, any of its branch offices or the office of an affiliate of Lender.

2.14 Assumptions Concerning Funding of LIBOR Loans. Calculation of all amounts payable to Lender under subsection 2.12 shall be made as though each Lender had actually funded its relevant LIBOR Loan through the purchase of a LIBOR deposit bearing interest at LIBOR in an amount equal to the amount of that

LIBOR Loan and having maturity comparable to the relevant Interest Period and through the transfer of such LIBOR deposit from an offshore office to a domestic office in the United States of America; provided, however, that each Lender may fund each of its LIBOR Loans in any manner it sees fit and the foregoing assumption shall be utilized only for the calculation of amounts payable under subsection 2.12.

SECTION 1. CONDITIONS TO LOANS

The obligations of Agent and each Lender to make Loans and the obligation of Agent or any Lender to issue Lender Letters of Credit on the Closing Date and on each Funding Date are subject to satisfaction of all of the terms and conditions set forth in this Agreement and in the Conditions Rider attached hereto and the accuracy of all the representations and warranties of Borrower and the other Loan Parties set forth herein and in the other Loan Documents.

SECTION 2. BORROWER'S REPRESENTATIONS, WARRANTIES AND CERTAIN COVENANTS

To induce Agent and each Lender to enter into the Loan Documents, to make and to continue to make Loans and to issue and to continue to issue Lender Letters of Credit, Borrower represents, warrants and covenants to Agent and each Lender that the following statements are and will be true, correct and complete and, unless specifically limited, shall remain so for so long as any of the Commitments hereunder shall be in effect and until payment in full of all Obligations.

2.1 Organization, Powers, Capitalization.

(A) Organization and Powers. Each of the Loan Parties is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and qualified to do business in all states where such qualification is required except where failure to be so qualified could not reasonably be expected to have a Material Adverse Effect. Each of the Loan Parties has all requisite corporate power and authority to own and operate its properties, to carry on its business as now conducted and proposed to be conducted and to enter into each Loan Document.

(B) Capitalization. The authorized capital stock of each of the Loan Parties and its respective Subsidiaries is as set forth on Schedule 4.1(B) including, all preemptive or other outstanding rights, options, warrants, conversion rights or similar agreements or understandings for the purchase or acquisition from any Loan Party of any shares of capital stock or other securities of any such entity. All issued and outstanding shares of capital stock of each of the Loan Parties are duly authorized and validly issued, fully paid, nonassessable, free and clear of all Liens [other than those in favor of Agent for the benefit of Lenders,] and such shares were issued in compliance with all applicable state and federal laws concerning the issuance of securities. Each Loan Party will promptly notify Lender of any change in its ownership or corporate structure.

2.2 Authorization of Borrowing, No Conflict. Borrower has the corporate power and authority to incur the Obligations and to grant security interests in the Collateral. On the Closing Date, the execution, delivery and performance of the Loan Documents by each Loan Party signatory thereto will have been duly authorized by all necessary corporate and shareholder action. The execution, delivery and performance by each Loan Party of each Loan Document to which it is a party and the consummation of the transactions contemplated by the Loan Documents by each Loan Party do not contravene any applicable law, the corporate charter or bylaws of any Loan Party or any agreement or order by which any Loan Party or any Loan Party's property is bound. The Loan Documents are the legally valid and binding obligations of the applicable Loan Parties respectively, each enforceable against the Loan Parties, as applicable, in accordance with their respective terms.

2.3 Financial Condition. All financial statements concerning Borrower and its Subsidiaries furnished by or on behalf of Borrower or its Subsidiaries to Agent or any Lender pursuant to this Agreement have been prepared in accordance with GAAP consistently applied throughout the periods involved (except as disclosed therein) and present fairly the financial condition of Persons covered thereby as at the dated thereof and the results of their operations for the periods then ended. The Projections delivered by Borrower will be prepared in light of the past operations of the business of Borrower and its Subsidiaries, and such Projections will represent the good faith estimate of Borrower and its senior management concerning the most probable course of its business as of the date such Projections are delivered.

2.4 Indebtedness and Liabilities. As of the Closing Date, Borrower does not have (a) any Indebtedness except as reflected on the most recent financial statements delivered to Agent and Lenders; or (b) any Liabilities other than as reflected on the most recent financial statements delivered to Agent and Lenders or as incurred in the ordinary course of business following the date of the most recent financial statements delivered to Agent and Lenders. Borrower shall promptly deliver copies of all notices given or received by Borrower and any of its Subsidiaries with respect to noncompliance with any term or condition related to any Indebtedness, and shall promptly notify Agent of any potential or actual Event of Default with respect to any Indebtedness.

2.5 Account Warranties and Covenants. Except as otherwise disclosed to Agent in writing, as to each Account that, at the time of its creation, the Account is a valid, bona fide account, representing an undisputed indebtedness incurred by the named account debtor for goods actually sold and delivered or for services completely rendered; there are no setoffs, offsets or counterclaims, genuine or otherwise, against the Account; the Account does not represent a sale to an Affiliate or a consignment, sale or return or a bill and hold transaction; no agreement exists permitting any deduction or discount (other than the discount stated on the invoice); Borrower is the lawful owner of the Account and has the right to assign the same to Agent, for the benefit of Lenders; the Account is free of all security interests, liens and encumbrances other than those in favor of Agent, on behalf of Lenders, and the Account is due and payable in accordance with its terms. Borrower shall, at its own expense: (a) cause all invoices evidencing Accounts and all copies thereof to bear a notice that such invoices are payable to the lockboxes established in accordance with subsection 4.26 and (b) use its best efforts to assure prompt payment of all amounts due or to become due under the Accounts. No credits or allowances will be issued, granted or allowed by Borrower to customers and no returns will be accepted without Agent's prior written consent; provided, that until Agent notifies Borrower to the contrary, Borrower may presume consent. Borrower will immediately notify Agent in the event that a customer alleges any dispute or claim with respect to an Account or of any other circumstances known to Borrower that may impair the validity or collectibility of an Account. Agent shall have the right, at any time or times hereafter, to verify the validity, amount or any other matter relating to an Account, by mail, telephone or in person. After the occurrence of a Default or an Event of Default, Borrower shall not, without the prior consent of Agent, adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any customer or obligor thereof, or allow any credit or discount thereon.

2.6 Names and Locations. Schedule 4.6 sets forth all names, trade names, fictitious names and business names under which Borrower currently conducts business or has at any time during the past five years conducted business and the name of any entity which Borrower has acquired in whole or in part or from whom Borrower has acquired a significant amount of assets within the past five years and sets forth the location of Borrower's principal place of business, the location of Borrower's books and records, the location of all other offices of Borrower and all Collateral locations, and such locations are Borrower's sole locations for its business and the Collateral. Borrower and each of its Subsidiaries will give Agent at least 30 days advance written notice of: (a) any change of name or of any new trade name or fictitious business name, (b) change of principal place of business, (c) any change in the location of such party's books and records or the Collateral, or (d) any new location for such Person's books and records or the Collateral.

2.7 Title to Properties; Liens. Borrower and each of its Subsidiaries has good, sufficient and legal title, to all of its respective material properties and assets, in each case, free and clear of all Liens except Permitted Encumbrances.

2.8 Litigation; Adverse Facts. There are no judgments outstanding against any Loan Party or affecting any property of any Loan Party nor is there any action, charge, claim, demand, suit, proceeding, petition, governmental investigation or arbitration now pending or, to the best knowledge of Borrower after due inquiry, threatened against or affecting any Loan Party or any property of any Loan Party which could reasonably be expected to result in any Material Adverse Effect. Promptly upon any officer of Borrower or its Subsidiaries obtaining knowledge of (a) the institution of any action, suit, proceeding, governmental investigation or arbitration against or affecting any Loan Party or any property of any Loan Party not previously disclosed by Borrower to Agent or (b) any material development in any action, suit, proceeding, governmental investigation or arbitration at any time pending against or affecting any Loan Party or any property of any Loan Party which could reasonably be expected to have a material Adverse Effect, Borrower will promptly give notice thereof to Agent and provide such other information as may be reasonably available to them to enable Agent and its counsel to evaluate such matter.

2.9 Payment of Taxes. All material tax returns and reports of Borrower and each of its Subsidiaries required to be filed by any of them have been timely filed and are complete and accurate in all material respects. All taxes, assessments, fees and other governmental charges which are due and payable by Borrower and each of its Subsidiaries have been paid when due; provided that no such tax need be paid if Borrower or one of its Subsidiaries is contesting same in good faith by appropriate proceedings promptly instituted and diligently conducted and if Borrower or such Subsidiary has established appropriate reserves as shall be required in conformity with GAAP. As of the Closing Date, none of the income tax returns of Borrower or any of its Subsidiaries are under audit and Borrower shall promptly notify Agent in the event that any of Borrower's or any of its Subsidiaries' tax returns become the subject of an audit. No tax liens have been filed against Borrower or any of its Subsidiaries. The charges, accruals and reserves on the books of Borrower and each of its Subsidiaries in respect of any taxes or other governmental charges are in accordance with GAAP. Borrower's federal tax identification number is 954376145.

2.10 Performance of Agreements. None of the Loan Parties and none of their respective Subsidiaries is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any material contractual obligation of any such Person, and no condition exists that, with the giving of notice or the lapse of time or both, would constitute such a default.

2.11 Employee Benefit Plans. Borrower, each of its Subsidiaries and each ERISA Affiliate is in compliance, and will continue to remain in compliance, in all material respects with all applicable provisions of ERISA, the IRC and all other applicable laws and the regulations and interpretations thereof with respect to all Employee Benefit Plans. No material liability has been incurred by Borrower, any Subsidiaries or any ERISA Affiliate which remains unsatisfied for any funding obligation, taxes or penalties with respect to any Employee Benefit Plan. Neither Borrower nor any of its Subsidiaries shall establish any new Employee Benefit Plan or amend any existing Employee Benefit Plan if the liability or increased liability resulting from such establishment or amendment is material.

2.12 Intellectual Property. Borrower and each of its Subsidiaries owns, is licensed to use or otherwise has the right to use, all Intellectual Property used in or necessary for the conduct of its business as currently conducted, and all such Intellectual Property is identified on Schedule 4.12. Borrower's existing licensing agreements in respect of its Intellectual Property are identified on Schedule 4.12(A).

2.13 Broker's Fees. No broker's or finder's fee or commission will be payable with respect to any of the transactions contemplated hereby.

2.14 Environmental Compliance. Each Loan Party is in compliance with all applicable Environmental Laws. There are no claims, liabilities, Liens, investigations, litigation, administrative proceedings, whether pending or threatened, or judgments or orders relating to any Hazardous Materials asserted

or threatened against any Loan Party or relating to any real property currently or formerly owned, leased or operated by any Loan Party.

2.15 Solvency. From and after the date of this Agreement, Borrower: (a) owns assets the fair salable value of which are greater than the total amount of its liabilities (including contingent liabilities); (b) has capital that is not unreasonably small in relation to its business as presently conducted or any contemplated or undertaken transaction; and (c) does not intend to incur and does not believe that it will incur debts beyond its ability to pay such debts as they become due.

2.16 Disclosure. No representation or warranty of Borrower, any of its Subsidiaries or any other Loan Party contained in this Agreement, the financial statements, the other Loan Documents, or any other document, certificate or written statement furnished to Agent or any Lender by or on behalf of any such Person for use in connection with the Loan Documents contains any untrue statement of a material fact or omitted, omits or will omit to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which the same were made. There is no material fact known to Borrower that has had or could have a Material Adverse Effect and that has not been disclosed herein or in such other documents, certificates and statements furnished to Agent or any Lender for use in connection with the transactions contemplated thereby.

2.17 Insurance. Borrower and each of its Subsidiaries maintains adequate insurance policies for public liability, property damage, product liability, and business interruption with respect to its business and properties and the business and properties of its Subsidiaries against loss or damage of the kinds customarily carried or maintained by corporations of established reputation engaged in similar business and in amounts acceptable to Agent. Borrower shall cause Agent, for itself and on behalf of Lenders, to be named as loss payee on all insurance policies relating to any Collateral and shall cause each Lender to be named as additional insured under all liability policies, in each case pursuant to appropriate endorsements in form and substance satisfactory to Agent and shall collaterally assign to Agent, for itself and on behalf of Lenders, as security for the payment of the Obligations all business interruption insurance of Borrowers. No notice of cancellation has been received with respect to such policies and Borrower and each of its Subsidiaries is in compliance with all conditions contained in such policies. Borrower shall apply any proceeds received from any policies of insurance relating to any Collateral to the Obligations as set forth in Subsection 2.4(B). In the event Borrower fails to provide Agent with evidence of the insurance coverage required by this Agreement, Agent may, but is not required to, purchase insurance at Borrower's expense to protect Agent's and the Lenders' interests in the Collateral. This insurance may, but need not, protect Borrower's interests. The coverage purchased by Agent may not pay any claim made by Borrower or any claim that is made against Borrower in connection with the Collateral. Borrower may later cancel any insurance purchased by Agent, but only after providing Agent with evidence that Borrower has obtained insurance as required by this Agreement. If Agent purchases insurance for the Collateral, Borrower will be responsible for the costs of that insurance, including interest thereon and other charges imposed on Agent in connection with the placement of the insurance, until the effective date of the cancellation or expiration of the insurance, and such costs may be added to the Obligations. The costs of the insurance may be more than the cost of insurance Borrower is able to obtain on its own.

2.18 Compliance with Laws. Neither Borrower nor any of its Subsidiaries is in violation of any law, ordinance, rule, regulation, order, policy, guideline or other requirement of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of its business or the ownership of its properties, including, without limitation, any Environmental Law, which violation would subject Borrower or any of its Subsidiaries, or any of their respective officers to criminal liability or have a Material Adverse Effect and no such violation has been alleged.

2.19 Bank Accounts. Schedule 4.19 sets forth the account numbers and locations of all bank accounts of Borrower and its Subsidiaries. Borrower shall not establish any new bank accounts, or amend or terminate any Blocked Account or lockbox agreement without Agent's prior written consent.

2.20 Employee Matters. Except as set forth on Schedule 4.20, (a) no Loan Party nor any of such Loan Party's employees is subject to any collective bargaining agreement, (b) no petition for certification or union election is

pending with respect to the employees of any Loan Party and no union or collective bargaining unit has sought such certification or recognition with respect to the employees of any Loan Party and (c) there are no strikes, slowdowns, work stoppages or controversies pending or, to the best knowledge of Borrower after due inquiry, threatened between any Loan Party and its respective employees, other than employee grievances arising in the ordinary course of business, which could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Except as set forth on Schedule 4.20, neither Borrower nor any of its Subsidiaries is subject to an employment contract.

2.21 **Governmental Regulation.** None of the Loan Parties is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act or the Investment Company Act of 1940 or to any federal or state statute or regulation limiting its ability to incur indebtedness for borrowed money.

2.22 **Access to Accountants and Management.** Borrower authorizes Agent and Lenders to discuss the financial condition and financial statements of Borrower and its Subsidiaries with Borrower's Accountants upon reasonable notice to Borrower of its intention to do so, and authorizes Borrower's Accountants to respond to all of Agent's inquiries. Agent and each Lender may, with the consent of Agent, which will not be unreasonably denied, confer with Borrower's management directly regarding Borrower's business, operations and financial condition.

2.23 **Inspection.** Borrower shall permit Agent and any authorized representatives designated by Agent to visit and inspect any of the properties of Borrower or any of its Subsidiaries, including their financial and accounting records, and, in conjunction with such inspection, to make copies and take extracts therefrom, and to discuss their affairs, finances and business with their officers and Borrower's Accountants, at such reasonable times during normal business hours and as often as may be reasonably requested. Each Lender may with the consent of Agent, which will not be unreasonably denied, accompany Agent on any such visit or inspection.

2.24 **Collateral Records.** Borrower shall keep full and accurate books and records relating to the Collateral and shall mark such books and records to indicate Agent's security interests in the Collateral, for the benefit of Lenders.

2.25 **Account Covenant; Verification.** Borrower shall, at its own expense: (a) cause all invoices evidencing Accounts and all copies thereof to bear a notice that such invoices are payable to the lockboxes established in accordance with subsection 4.26 and (b) use its best efforts to assure prompt payment of all amounts due or to become due under the Accounts. No discounts, credits or allowances will be issued, granted or allowed by Borrower to customers and no returns will be accepted without Agent's prior written consent; provided, that until Agent notifies Borrower to the contrary, Borrower may presume consent. Borrower will promptly notify Agent in the event that a customer alleges any dispute or claim with respect to an Account or of any other circumstances known to Borrower that may impair the validity or collectibility of an Account. Agent shall have the right, at any time or times hereafter, to verify the validity, amount or any other matter relating to an Account, by mail, telephone or in person. After the occurrence of a Default or an Event of Default, Borrower shall not, without the prior consent of Agent, adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any customer or obligor thereof, or allow any credit or discount thereon.

2.26 **Collection of Accounts and Payments.** Agent shall establish lockboxes and blocked accounts (collectively, "Blocked Accounts") with such banks ("Collecting Banks") as are acceptable to Agent (subject to irrevocable instructions acceptable to Agent as hereinafter set forth) to which Borrower shall instruct all account debtors to directly remit all payments on Accounts and in which Borrower will immediately deposit all payments made for Inventory or other payments constituting proceeds of Collateral in the identical form in which such payment was made, whether by cash or check. The Collecting Banks shall acknowledge and agree, in a manner satisfactory to Agent, that all payments made to the Blocked Accounts are the sole and exclusive property of Agent, for the benefit of Lenders, and that the Collecting Banks have no right to setoff against the Blocked Accounts and that all such payments received will be promptly transferred to Agent's Account. Borrower hereby agrees that all payments made to such Blocked Accounts or otherwise received by Agent and

whether on the Accounts or as proceeds of other Collateral or otherwise will be the sole and exclusive property of Agent, for the benefit of Lenders. Borrower shall irrevocably instruct each Collecting Bank to promptly transfer all payments or deposits to the Blocked Accounts in to Agent's Account. If Borrower, or any of its Affiliates, employees, agents or other Persons acting for or in concert with Borrower, shall receive any monies, checks, notes, drafts or any other payments relating to and/or proceeds of Accounts or other Collateral, Borrower or such Persons shall hold such instrument or funds in trust for Agent and immediately upon receipt thereof, shall remit the same or cause the same to be remitted, in kind, to the Blocked Accounts or to Agent at its address set forth in subsection 10.3 below.

Borrower may amend any one or more of the Schedules referred in this Section 4 (subject to prior notice to Agent, as applicable) and any representation, warranty, or covenant contained herein which refers to any such Schedule shall from and after the date of any such amendment refer to such Schedule as so amended; provided however, that in no event shall the amendment of any such Schedule constitute a waiver by Agent and Lenders of any Default or Event of Default that exists notwithstanding the amendment of such Schedule.

SECTION 5. REPORTING AND OTHER AFFIRMATIVE COVENANTS

Borrower covenants and agrees that, so long as any of the Commitments hereunder shall be in effect and until payment in full of all Obligations, Borrower shall perform, and shall cause each of its Subsidiaries to perform, all covenants in this Section 5.

5.1 Financial Statements and Other Reports. Borrower will deliver to Agent and each Lender (unless specified to be delivered solely to Agent) the financial statements and other reports contained in the Reporting Rider attached hereto.

5.2 Endorsement. Borrower hereby constitutes and appoints Agent and all Persons designated by Agent for that purpose as Borrower's true and lawful attorney-in- fact, with power to endorse Borrower's name to any of the items of payment or proceeds described in subsection 4.26 above and all proceeds of Collateral that come into Agent's possession or under Agent's control. Both the appointment of Agent as Borrower's attorney and Agent's rights and powers are coupled with an interest and are irrevocable until payment in full and complete performance of all of the Obligations.

5.3 Maintenance of Properties. Borrower will maintain or cause to be maintained in good repair, working order and condition all material properties used in the

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business of Borrower and its Subsidiaries and will make or cause to be made all appropriate repairs, renewals and replacements thereof.

5.4 Compliance with Laws. Borrower will, and will cause each of its Subsidiaries to, comply with the requirements of all applicable laws, rules, regulations and orders of any governmental authority as now in effect and which may be imposed in the future in all jurisdictions in which Borrower or any of its Subsidiaries is now doing business or may hereafter be doing business, other than those laws the noncompliance with which would not have a Material Adverse Effect;

5.5 Further Assurances. Borrower shall, and shall cause each of its Subsidiaries to, from time to time, execute such guaranties, financing or continuation statements, documents, security agreements, reports and other documents or deliver to Agent such instruments, certificates of title, mortgages, deeds of trust, or other documents as Agent at any time may reasonably request to evidence, perfect or otherwise implement the guaranties and security for repayment of the Obligations provided for in the Loan Documents.

5.6 Additional Mortgaged Property. Borrower shall as promptly as possible (and in any event within 60 days after such designation) deliver to Agent a fully executed mortgage, in form and substance satisfactory to Agent together with title insurance policies and surveys on any Additional Mortgaged Property

designated by Agent.

5.7 Use of Proceeds and Margin Security. Borrower shall use the proceeds of all Loans for proper business purposes (as described in the recitals to this Agreement) consistent with all applicable laws, statutes, rules and regulations. No portion of the proceeds of any Loan shall be used by Borrower or any of its Subsidiaries for the purpose of purchasing or carrying margin stock within the meaning of Regulation G or Regulation U, or in any manner that might cause the borrowing or the application of such proceeds to violate Regulation T or Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act.

5.8 Bailee. If any Collateral is at any time in the possession or control of any warehouseman, bailee or any of Borrower's agents or processors, Borrower shall, upon the request of Agent, notify such warehouseman, bailee, agent or processor of the security interests in favor of Agent, for the benefit of Lenders, created hereby and shall instruct such Person to hold all such Collateral for Agent's account subject to Agent's instructions.

SECTION 6. FINANCIAL COVENANTS

Borrower covenants and agrees that so long as any of the Commitments remain in effect and until indefeasible payment in full of all Obligations and termination of all Lender Letters of Credit, Borrower shall comply with and shall cause each of its Subsidiaries to comply with all covenants contained in the Financial Covenant Rider.

SECTION 7. NEGATIVE COVENANTS

Borrower covenants and agrees that so long as any of the Commitments remain in effect and until indefeasible payment in full of Obligations and termination of all Lender Letters of Credit, Borrower shall not and will not permit any of its Subsidiaries to:

7.1 Indebtedness and Liabilities. Directly or indirectly create, incur, assume, guaranty, or otherwise become or remain directly or indirectly liable, on a fixed or contingent basis, with respect to any Indebtedness except: (a) the Obligations; (b) Indebtedness under Capital Leases not to exceed \$12,000,000 outstanding at any time in the aggregate; and (c) Indebtedness existing on the Closing Date and identified on Schedule 7.1. Borrower will not, and will not permit any of its Subsidiaries to, incur any Liabilities except for Indebtedness permitted herein and trade payables and normal accruals in the ordinary course of business not yet due and payable or with respect to which Borrower or any of its Subsidiaries is contesting in good faith the amount or validity thereof by appropriate proceedings and then only to the extent that Borrower or any of its Subsidiaries has established adequate reserves therefor under GAAP.

7.2 Guaranties. Except for endorsements of instruments or items of payment for collection in the ordinary course of business, guaranty, endorse, or otherwise, in any way become or be responsible for any obligations of any other Person, whether directly or indirectly by agreement to purchase the indebtedness of any other Person or through the purchase of goods, supplies or services, or maintenance of working capital or other balance sheet covenants or conditions, or by way of stock purchase, capital contribution, advance or loan for the purpose of payment or discharging any indebtedness or obligation of such other Person or otherwise.

7.3 Transfers, Liens and Related Matters.

(A) Transfers. Sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to any of the Collateral, except that Borrower and its Subsidiaries may (i) sell inventory in the ordinary course of business; and (ii) make Asset Dispositions if all of the following conditions are met: (1) the market value of assets sold or otherwise disposed of in any single transaction or series of related transactions does not exceed \$1,000,000 and the aggregate market value of assets sold or otherwise disposed of in any Fiscal Year does not exceed \$2,500,000; (2) the consideration received is at least equal to the fair market value of such assets; (3) the sole consideration received is cash; (4) the net proceeds of such Asset Disposition are applied as required by subsection 2.4(B); (5) after giving effect to the sale or other disposition of the assets included within the Asset Disposition and the repayment of the Obligations with the proceeds thereof, Borrower is in

compliance on a pro forma basis with the covenants set forth in the Financial Covenant Rider recomputed for the most recently ended month for which information is available and is in compliance with all other terms and conditions contained in this Agreement; and (6) no Default or Event of Default shall then exist or result from such sale or other disposition.

(B) Liens. Except for Permitted Encumbrances, directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any of the Collateral or any proceeds, income or profits therefrom.

(C) No Negative Pledges. Enter into or assume any agreement (other than the Loan Documents) prohibiting the creation or assumption of any Lien upon its properties or assets, whether now owned or hereafter acquired.

(D) No Restrictions on Subsidiary Distributions to Borrower. Except as provided herein, directly or indirectly create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any such Subsidiary to: (1) pay dividends or make any other distribution on any of such Subsidiary's capital stock owned by Borrower or any Subsidiary of Borrower; (2) pay any indebtedness owed to Borrower or any other Subsidiary; (3) make loans or advances to Borrower or any other Subsidiary; (4) transfer any of its property or assets to Borrower or any other Subsidiary.

7.4 Investments and Loans. Make or permit to exist investments in or loans to any other Person, except: (a) Cash Equivalents; and (b) loans and advances to employees for moving, entertainment, travel and other similar expenses in the ordinary course of business in an aggregate outstanding amount not in excess of \$1,000,000 at any time.

7.5 Restricted Junior Payments. Directly or indirectly declare, order, pay, make or set apart any sum for any Restricted Junior Payment, except that: (a) Tax Distributions which may be paid in multiple installments based on estimates of Borrower's taxable income to allow its shareholders to meet their tax obligations in a timely manner (including without limitation estimated tax obligations) less any loss, deduction or credit from such shareholders' income attributable to such shareholders' ownership interest in Borrower for the previous tax year; (b) Subsidiaries of Borrower may make Restricted Junior Payments with respect to their common stock to the extent necessary to permit Borrower to pay the Obligations, to make Restricted Junior Payments permitted under clause (c) below, and to permit Borrower to pay expenses incurred in the ordinary course of business; and (c) Borrower may make distributions and/or dividends to its shareholders without limitation provided that (i) Borrower shall have first given Agent notice of its intention to make such payment and (ii) Borrower shall be in compliance with the terms and conditions of the Loan Documents both prior to making such payment and after giving effect to such payment (including Borrower's compliance with the financial covenants calculated through the date of such payment) and shall have delivered a Compliance Certificate to Agent demonstrating such compliance, not later than two (2) Business Days before making such payment.

7.6 Restriction on Fundamental Changes. (a) Enter into any transaction of merger or consolidation; (b) liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution); (c) convey, sell, lease, sublease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business or assets, or the capital stock of any of its Subsidiaries, whether now owned or hereafter acquired; (d) acquire by purchase or otherwise all or any substantial part of the business or assets of, or stock or other beneficial ownership of, any Person or (e) issue any capital stock in Borrower other than through the public markets; provided however, that Borrower may reincorporate in Delaware, either by merger or roll-up, in conjunction with any initial public offering of Borrower upon (a) thirty (30) days prior written notice to Agent and (b) Borrower's execution of all security and documents required by Agent in order to protect the Lenders' liens, security interests and other rights and benefits under the Loan Documents.

7.7 Bank Accounts. Establish any new bank accounts, or attempt to amend or terminate any Blocked Account or lockbox agreement without Agent's prior written consent.

7.8 Transactions with Affiliates. Directly or indirectly, enter into or permit to exist any transaction (including the purchase, sale or exchange of property or the rendering of any service) with any Affiliate or with any

officer, director or employee of any Loan Party, except for Tax Distributions permitted in subsection 7.5 and except for transactions in the ordinary course of Borrower's business and upon fair and reasonable terms which are fully disclosed to Agent and Lenders and which are no less favorable to Borrower than it would obtain in a comparable arm's length transaction with an unaffiliated Person.

7.9 Conduct of Business. From and after the Closing Date, engage in any business other than businesses of the type engaged in by Borrower or any Subsidiary on the Closing Date.

7.10 Tax Consolidations. File or consent to the filing of any consolidated income tax return with any Person other than any other Borrower or any of their

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Subsidiaries, provided that in the event Borrower files a consolidated return with any such Person, Borrower's contribution with respect to taxes as a result of the filing of such consolidated return shall not be greater, nor the receipt of tax benefits less, than they would have been had Borrower not filed a consolidated return with such Person.

7.11 Subsidiaries. Establish, create or acquire any new Subsidiaries.

7.12 Fiscal Year; Tax Designation. Change its Fiscal Year; or elect to be designated as an entity other than a sub-chapter S corporation as defined in IRC; provided, however, that Borrower may elect to be designated as a sub-chapter C corporation in connection with an initial public offering permitted by this Agreement.

7.13 Press Release; Public Offering Materials. Disclose the name of Agent or any Lender in any press release or in any prospectus, proxy statement or other materials filed with any governmental entity relating to a public offering of the capital stock of any Loan Party except as may be required by law; provided, however, that Borrower may disclose the name of Heller Financial, Inc. in conjunction with any prospectus or other document relating to an initial offering of the capital stock of Borrower.

SECTION 8. DEFAULT, RIGHTS AND REMEDIES

8.1 Event of Default. "Event of Default" shall mean the occurrence or existence of any one or more of the following:

(A) Payment. Failure to make payment of any of the Obligations when due; or

(B) Default in Other Agreements. (1) Failure of Borrower or any of its Subsidiaries to pay when due any principal or interest on any Indebtedness (other than the Obligations) or (2) breach or default of Borrower or any of its Subsidiaries with respect to any Indebtedness (other than the Obligations); if such failure to pay, breach or default entitles the holder to cause such Indebtedness having an individual principal amount in excess of \$100,000 or having an aggregate principal amount in excess of \$250,000 to become or be declared due prior to its stated maturity; or

(C) Breach of Certain Provisions. Failure of Borrower to perform or comply with any term or condition contained in the Reporting Rider, Section 5.1 or contained in the Financial Covenants Rider or the failure to perform or comply with any other term or condition of Section 7 which, by its nature, is not curable; or

(D) Breach of Warranty. Any representation, warranty, certification or other statement made by any Loan Party in any Loan Document or in any statement or certificate at any time given by such Person in writing pursuant or in connection with any Loan Document is false in any material respect on the date made; or

(E) Other Defaults Under Loan Documents. Borrower or any other Loan

Party defaults in the performance of or compliance with any term contained in this Agreement or the other Loan Documents and such default is not remedied or waived within 10 days after receipt by Borrower of notice from Agent, or Requisite Lenders, of such default (other than occurrences described in other provisions of this subsection 8.1 for which a different grace or cure period is specified or which constitute immediate Events of Default); or

(F) Change in Control. Robert Y. Greenberg and M. Susan Greenberg together cease to beneficially own and control, directly or indirectly, at least 25% of the issued and outstanding shares of each class of capital stock of Borrower entitled (without regard to the occurrence of any contingency) to vote for the election of a majority of the members of the board of directors of Borrower.

(G) Involuntary Bankruptcy; Appointment of Receiver, etc. (a) A court enters a decree or order for relief with respect to any Guarantor, Borrower or any of its Subsidiaries in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, which decree or order is not stayed or other similar relief is not granted under any applicable federal or state law; or (2) the continuance of any of the following events for 60 days unless dismissed, bonded or discharged: (a) an involuntary case is commenced against any Guarantor, Borrower or any of its Subsidiaries, under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect; or (b) a receiver, liquidator, sequestrator, trustee, custodian or other fiduciary having similar powers over any Guarantor, Borrower or any of its Subsidiaries, or over all or a substantial part of their respective property, is appointed; or

(H) Voluntary Bankruptcy; Appointment of Receiver, etc. (1) Any Guarantor, Borrower or any of its Subsidiaries commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case or to the conversion of an involuntary case to a voluntary case under any such law or consents to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or (2) any Guarantor, Borrower or any of its Subsidiaries makes any assignment for the benefit of creditors; or (3) the board of directors of any Guarantor, Borrower or any of its Subsidiaries adopts any resolution or otherwise authorizes action to approve any of the actions referred to in this subsection 8.1(H); or

(I) Liens. Any lien, levy or assessment is filed or recorded with respect to or otherwise imposed upon all or any part of the Collateral or the assets of Borrower or any of its Subsidiaries by the United States or any department or instrumentality thereof or by any state, county, municipality or other governmental agency (other than Permitted Encumbrances) and such lien, levy or assessment is not stayed, vacated, paid or discharged within 10 days; or

(J) Judgment and Attachments. Any money judgment, writ or warrant of attachment, or similar process involving (1) an amount in any individual case in excess of \$100,000 or (2) an amount in the aggregate at any time in excess of \$250,000 (in either case not adequately covered by insurance as to which the insurance company has acknowledged coverage) is entered or filed against Borrower or any of its Subsidiaries or any of their respective assets and remains undischarged, unvacated, unbonded or unstayed for a period of 30 days, but in any event not later than 5 days prior to the date of any proposed sale thereunder; or

(K) Dissolution. Any order, judgment or decree is entered against Borrower or any of its Subsidiaries decreeing the dissolution or split up of Borrower or that Subsidiary and such order remains undischarged or unstayed for a period in excess of 20 days, but in any event not later than 5 days prior to the date of any proposed dissolution or split up; or

(L) Solvency. Borrower ceases to be solvent (as represented by Borrower in subsection 4.15) or admits in writing its present or prospective inability to pay its debts as they become due; or

(M) Injunction. Borrower or any of its Subsidiaries is enjoined, restrained or in any way prevented by the order of any court or any administrative or regulatory agency from conducting all or any material part of its business and such order continues for 30 days; or

(N) Invalidity of Loan Documents. Any of the Loan Documents for any

reason, other than a partial or full release in accordance with the terms thereof, ceases to be in full force and effect or is declared to be null and void, or any Loan Party denies that it has any further liability under any Loan Documents to which it is a party, or gives notice to such effect; or

(O) Failure of Security. Agent, on behalf of Lenders, does not have or ceases to have a valid and perfected first priority security interest in the Collateral (subject to Permitted Encumbrances), in each case, for any reason other than the failure of Agent or any Lender to take any action within its control; or

(P) Damage, Strike, Casualty. Any material damage to, or loss, theft or destruction of, any Collateral, whether or not insured, or any strike, lockout, labor dispute, embargo, condemnation, act of God or public enemy, or other casualty which causes, for more than 15 consecutive days, the cessation or substantial curtailment of revenue producing activities at any facility of Borrower or any of its Subsidiaries if any such event or circumstance could reasonably be expected to have a Material Adverse Effect.

(Q) Licenses and Permits. The loss, suspension or revocation of, or failure to renew, any license or permit now held or hereafter acquired by Borrower or any of its Subsidiaries, if such loss, suspension, revocation or failure to renew could reasonably be expected to have a Material Adverse Effect.

(R) Forfeiture. There is filed against Borrower or any Guarantor any civil or criminal action, suit or proceeding under any federal or state racketeering statute (including, without limitation, the Racketeer Influenced and Corrupt Organization Act of 1970), which action, suit or proceeding (1) is not dismissed within 120 days; and (2) could reasonably be expected to result in the confiscation or forfeiture of any material portion of the Collateral.

(S) Guarantor Cash Collateral. Guarantor fails to deposit the Guarantor Cash Collateral with Agent on the Closing Date.

8.2 Suspension of Commitments. Upon the occurrence of any Default or Event of Default, notwithstanding any grace period or right to cure, Agent may or upon demand by Requisite Lenders shall, without notice or demand, immediately cease making [or restrict the amount of] additional Loans and the Commitments shall be suspended [or restricted]; provided that, in the case of a Default, if the subject condition or event is waived or cured within any applicable grace or cure period, the Commitments shall be reinstated.

8.3 Acceleration. Upon the occurrence of any Event of Default described in the foregoing subsections 8.1(G) or 8.1(H), all Obligations shall automatically become immediately due and payable, without presentment, demand, protest or other requirements of any kind, all of which are hereby expressly waived by Borrower, and the Commitments shall thereupon terminate. Upon the occurrence and during the continuance of any other Event of Default, Agent may, and upon demand by Requisite Lenders shall, by written notice to Borrower, (a) declare all or any portion of the Obligations to be, and the same shall forthwith become, immediately due and payable and the Commitments shall thereupon terminate and (b) demand that Borrower immediately deposit with Agent an amount

equal to 105% of the Letter of Credit Reserve to enable Agent or any Lender that has issued any Lender Letter of Credit to make payments under the Lender Letters of Credit when required and such amount shall become immediately due and payable.

8.4 Remedies. If any Event of Default shall have occurred and be continuing, in addition to and not in limitation of any other rights or remedies available to Agent and Lenders at law or in equity, Agent may and shall upon the request of Requisite Lenders exercise in respect of the Collateral, in addition to all other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the UCC (whether or not the UCC applies to the affected Collateral) and may also (a) require Borrower to, and Borrower hereby agrees that it will, at its expense and upon request of Agent forthwith, assemble all or part of the Collateral as directed by Agent and make it available to Agent at a place to be designated by

Agent which is reasonably convenient to both parties; (b) withdraw all cash in the Blocked Accounts and apply such monies in payment of the Obligations in the manner provided in subsection 8.7; and (c) without notice or demand or legal process, enter upon any premises of Borrower and take possession of the Collateral. Borrower agrees that, to the extent notice of sale of the Collateral or any part thereof shall be required by law, at least 10 days notice to Borrower of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. At any sale of the Collateral (whether public or private), if permitted by law, Agent or any Lender may bid (which bid may be, in whole or in part, in the form of cancellation of indebtedness) for the purchase of the Collateral or any portion thereof for the account of Agent or such Lender. Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Borrower shall remain liable for any deficiency. Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. To the extent permitted by law, Borrower hereby specifically waives all rights of redemption, stay or appraisal which it has or may have under any law now existing or hereafter enacted. Agent shall not be required to proceed against any Collateral but may proceed against Borrower directly.

8.5 Appointment of Attorney-in-Fact. Borrower hereby constitutes and appoints Agent as Borrower's attorney-in-fact with full authority in the place and stead of Borrower and in the name of Borrower, Agent or otherwise, from time to time in Agent's discretion while an Event of Default is continuing to take any action and to execute any instrument that Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including: (a) to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipt for moneys due and to become due under or in respect of any of the Collateral; (b) to adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any customer or obligor thereunder or allow any credit or discount thereon; (c) to receive, endorse, and collect any drafts or other instruments, documents and chattel paper, in connection with clause (a) above; (d) to file any claims or take any action or institute any proceedings that Agent may deem necessary or desirable for the collection of or to preserve the value of any of the Collateral or otherwise to enforce the rights of Agent and Lenders with respect to any of the Collateral; and (e) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, assignments, verifications and notices in connection with Accounts and other documents relating to the Collateral. The appointment of Agent as Borrower's attorney and Agent's rights and powers are coupled with an interest and are irrevocable until indefeasible payment in full and complete performance of all of the Obligations.

8.6 Limitation on Duty of Agent with Respect to Collateral. Beyond the safe custody thereof, Agent and each Lender shall have no duty with respect to any Collateral in its possession or control (or in the possession or control of any agent or bailee) or with respect to any income thereon or the preservation of rights against prior parties or any other rights pertaining thereto. Agent shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which Agent accords its own property. Neither Agent nor any Lender shall be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouseman, carrier, forwarding agency, consignee, broker or other agent or bailee selected by Borrower or selected by Agent in good faith.

8.7 Application of Proceeds. Upon the occurrence and during the continuance of an Event of Default, (a) Borrower irrevocably waives the right to direct the application of any and all payments at any time or times thereafter received by Agent from or on behalf of Borrower, and Borrower hereby irrevocably agrees that Agent shall have the continuing exclusive right to apply and to reapply any and all payments received at any time or times after the occurrence and during the continuance of an Event of Default against the Obligations in such manner as Agent may deem advisable notwithstanding any previous entry by Agent upon any books and records and (b) the proceeds of any sale of, or other realization upon, all or any part of the Collateral shall be applied: first, to all fees, costs and expenses incurred by or owing to Agent with respect to this Agreement, the other Loan Documents or the Collateral; second, to all fees, costs and expenses incurred by or owing to any Lender with respect to this Agreement, the other Loan Documents or the Collateral; third, to accrued and

unpaid interest on the Obligations; fourth, to the principal amounts of the Obligations outstanding; and fifth, to any other indebtedness or obligations of Borrower owing to Agent or any Lender.

8.8 License of Intellectual Property. Borrower hereby assigns, transfers and conveys to Agent, for the benefit of Lenders, effective upon the occurrence of any Event of Default hereunder, the non-exclusive right and license to use all Intellectual Property owned or used by Borrower together with any goodwill associated therewith, all to the extent necessary to enable Agent to realize on the Collateral and any successor or assign to enjoy the benefits of the Collateral. This right and license shall inure to the benefit of all successors, assigns and transferees of Agent and its successors, assigns and transferees, whether by voluntary conveyance, operation of law, assignment, transfer, foreclosure, deed in lieu of foreclosure or otherwise. Such right and license is granted free of charge.

8.9 Waivers, Non-Exclusive Remedies. No failure on the part of Agent or any Lender to exercise, and no delay in exercising and no course of dealing with respect to, any right under this Agreement or the other Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise by Agent or any Lender of any right under this Agreement or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right. The rights in this Agreement and the other Loan Documents are cumulative and shall in no way limit any other remedies provided by law.

SECTION 9. AGENT

9.1 Agent.

(A) Appointment. Each Lender hereto and, upon obtaining an interest in any Loan, any participant, transferee or other assignee of any Lender irrevocably appoints, designates and authorizes Heller as Agent to take such actions or refrain from taking such action as its agent on its behalf and to exercise such powers hereunder as are delegated by the terms hereof, together with such powers as are reasonably incidental thereto. Neither the Agent nor any of its directors, officers, employees or agents shall be liable for any action so taken except as expressly provided herein. The provisions of this subsection 9.1 are solely for the benefit of Agent and Lenders and neither Borrower nor any Loan Party shall have any rights as a third party beneficiary of any of the provisions hereof. Agent may perform any of its duties hereunder, or under the Loan Documents, by or through its agents or employees.

(B) Nature of Duties. Agent shall have no duties, obligations or responsibilities except those expressly set forth in this Agreement or in the Loan Documents. The duties of Agent shall be mechanical and administrative in nature. Agent shall not have by reason of this Agreement a fiduciary, trust or agency relationship with or in respect of any Lender, Borrower or any Loan Party. Each Lender shall make its own appraisal of the credit worthiness of Borrower, and shall have independently taken whatever steps it considers necessary to evaluate the financial condition and affairs of Borrower, and Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before the Closing Date or at any time or times thereafter, provided that Agent shall provide any Lender with copies of any notice, report or other document provided to the Agent by the Borrower and requested by such Lender pursuant to this Agreement. If Agent seeks the consent or approval of any Lenders to the taking or refraining from taking any action hereunder, then Agent shall send notice thereof to each Lender. Agent shall promptly notify each Lender any time that the applicable percentage of Lenders have instructed Agent to act or refrain from acting pursuant hereto.

(C) Rights, Exculpation, Etc. Neither Agent nor any of its officers, directors, employees or agents shall be liable to any Lender for any action taken or omitted by them hereunder or under any of the Loan Documents, or in connection herewith or therewith, except that Agent shall be obligated on the terms set forth herein for performance of its express obligations hereunder, and except that Agent shall be liable with respect to its own gross negligence or willful misconduct. Agent shall not be liable for any apportionment or distribution of payments made by it in good faith and if any such apportionment or distribution is subsequently determined to have been made in error, the sole recourse of any Lender to whom payment was due but not made, shall be to recover from other Lenders any payment in excess of the amount to which they are

determined to be entitled (and such other Lenders hereby agree to return to such Lender any such erroneous payments received by them). In performing its functions and duties hereunder, Agent shall exercise the same care which it would in dealing with loans for its own account, but Agent shall not be responsible to any Lender for any recitals, statements, representations or warranties herein or for the execution, effectiveness, genuineness, validity, enforceability, collectibility, or sufficiency of this Agreement or any of the Loan Documents or the transactions contemplated thereby, or for the financial condition of any Loan Party. Agent shall not be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement or any of the Loan Documents or the financial condition of any Loan Party, or the existence or possible existence of any Default or Event of Default. Agent may at any time request instructions from Lenders with respect to any actions or approvals which by the terms of this Agreement or of any of the Loan Documents Agent is permitted or required to take or to grant, and Agent shall be entitled to refrain from taking any action or to withhold any approval and shall not be under any liability whatsoever to any Person for refraining from any action or withholding any approval under any of the Loan Documents until it shall have received such instructions from the applicable percentage of the Lenders. Without limiting the foregoing, no Lender shall have any right of action whatsoever against Agent as a result of Agent acting or refraining from acting under this Agreement or any of the other Loan Documents in accordance with the instructions of the applicable percentage of the Lenders and notwithstanding the instructions of Lenders, Agent shall have no obligation to take any action if it, in good faith, believes that such action exposes Agent to any liability.

(D) Reliance. Agent shall be under no duty to examine, inquire into, or pass upon the validity, effectiveness or genuineness of this Agreement, any other Loan Document, or any instrument, document or communication furnished pursuant hereto or in connection herewith. Agent shall be entitled to rely upon and assume that any written notices, statements, certificates, orders or other documents or any telephone message or other communication (including any writing, telex, telecopy or telegram) are genuine, valid, effective and correct and to have been signed, sent or made by the proper Person, and with respect to all matters pertaining to this Agreement or any of the Loan Documents and its duties hereunder or thereunder. Agent shall be entitled to rely upon the advice of legal counsel, independent accountants, and other experts selected by Agent in its sole discretion.

(E) Indemnification. Each Lender, in proportion to its Pro Rata Share, severally, agrees to reimburse and indemnify Agent for and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, advances or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of this Agreement or any of the Loan Documents or any action taken or omitted by Agent under this Agreement or any of the Loan Documents; provided, however, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, advances or disbursements resulting from Agent's gross negligence or willful misconduct as determined by a court of competent jurisdiction. The obligations of Lenders under this subsection 9.1(E) shall survive the payment in full of the Obligations and the

termination of this Agreement.

(F) Heller Individually. With respect to its Commitments and the Loans made by it, Heller shall have and may exercise the same rights and powers hereunder and is subject to the same obligations and liabilities as and to the extent set forth herein for any other Lender. The terms "Lenders" or "Requisite Lenders"; or any similar terms shall, unless the context clearly otherwise indicates, include Heller in its individual capacity as a Lender. Heller may lend money to, and generally engage in any or other business with any Loan Party as if it were not acting as Agent pursuant hereto.

(G) Successor Agent.

(1) Resignation. Agent may resign from the performance of all its functions and duties hereunder at any time by giving at least 30 Business Days' prior written notice to Borrower and the Lenders. Such resignation shall take effect upon the acceptance by a successor Agent of appointment as provided below.

(2) Appointment of Successor. Upon any such notice of resignation pursuant to clause (G)(1) above, Requisite Lenders shall, upon receipt of Borrower's prior consent which shall not unreasonably be withheld, appoint a successor Agent. If a successor Agent shall not have been so appointed within said 30 Business Day period, the retiring Agent, upon notice to Borrower, shall then appoint a successor Agent who shall serve as Agent until such time, as Requisite Lenders appoint a successor Agent as provided above.

(3) Successor Agent. Upon the acceptance of any appointment as Agent under the Loan Documents by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under the Loan Documents. After any retiring Agent's resignation as Agent under the Loan Documents, the provisions of this Section 9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under the Loan Documents.

(H) Collateral Matters.

(1) Release of Collateral. Lenders hereby irrevocably authorize Agent, at its option and in its discretion, to release any Lien granted to or held by Agent upon any property covered by this Agreement or the Loan Documents (i) upon termination of the Commitments and upon final and indefeasible payment in full in cash and satisfaction of all Obligations and termination of this Agreement; (ii) constituting property being sold or disposed of in accordance with this Agreement if Borrower certifies to Agent that the sale or disposition is made in compliance with the provisions of this Agreement (and Agent may rely in good faith conclusively on any such certificate, without further inquiry); or (iii) constituting property leased to Borrower under a lease which has expired or been terminated in a transaction permitted under this Agreement or is about to expire and which has not been, and is not intended by Borrower to be, renewed or extended. In addition during any Fiscal Year Agent may release Collateral having a book value of not more than \$200,000 in the aggregate. Without limiting any of the foregoing, each Lender agrees to confirm in writing, upon request by Borrower, the authority to release any property covered by this Agreement or the Loan Documents conferred upon Agent under this subsection.

(2) Execution of Releases. So long as no Event of Default is then continuing, upon confirmation from the requisite percentage (as set forth in subsection 9.1(H)(1) above) of Lenders, of Agent's authority to release any Collateral, and upon at least 10 Business Days prior written request by Borrower, Agent shall, and is hereby irrevocably authorized by Lenders to, execute such documents as may be necessary to evidence the release of the Liens upon such Collateral; provided, however, that (i) Agent shall not be required to execute any such document on terms which, in Agent's opinion, would expose Agent to liability or create any obligation or entail any consequence other than the release of such Liens without recourse or warranty, and (ii) such release shall not in any manner discharge, affect or impair the Obligations or any Liens granted to Agent on behalf of Lenders upon (or obligations of any Loan Party, in respect of), all interests retained by any Loan Party, including, without limitation, the proceeds of any sale, all of which shall continue to constitute part of the property covered by this Agreement or the Loan Documents, and (iii) such release is not consistent with the terms of this Agreement.

(3) Absence of Duty. Agent shall have no obligation whatsoever to any Lender or any other Person to assure that the property covered by this Agreement or the Loan Documents exists or is owned by Borrower or is cared for, protected or insured or has been encumbered or that the Liens granted to Agent on behalf of Lenders herein or pursuant hereto have been properly or sufficiently or lawfully created, perfected, protected or enforced or are entitled to any particular priority, or to exercise at all or in any particular manner or under any duty of care, disclosure or fidelity, or to continue exercising, any of the rights, authorities and powers granted or available to Agent in this Agreement or in any of the Loan Documents, it being understood and agreed that in respect of the property covered by this Agreement or the Loan

Documents or any act, omission or event related thereto, Agent may act in any manner it may deem appropriate, in its discretion, given Agent's own interest in property covered by this Agreement or the Loan Documents as one of the Lenders and that Agent shall have no duty or liability whatsoever to any of the other Lenders.

(I) Agency for Perfection. Each Lender hereby appoints each other Lender as agent for the purpose of perfecting Lenders' security interest in Collateral which, in accordance with Article 9 of the Uniform Commercial Code in any applicable jurisdiction, can be perfected only by possession. Should any Lender (other than Agent) obtain possession of any such Collateral, such Lender shall notify Agent thereof, and, promptly upon Agent's request therefor, shall deliver such Collateral to Agent or in accordance with Agent's instructions. The Agent may file such proofs of claim or documents as may be necessary or advisable in order to have the claims of the Agent and the Lenders (including any claim for the reasonable compensation, expenses, disbursements and advances of the Agent and the Lenders, their respective agents, financial advisors and counsel), allowed in any judicial proceedings relative to Borrower and/or its Subsidiaries, or any of their respective creditors or property, and shall be entitled and empowered to collect, receive and distribute any monies, securities or other property payable or deliverable on any such claims. Any custodian in any judicial proceedings relative to Borrower and/or its Subsidiaries is hereby authorized by each Lender to make payments to the Agent and, in the event that the Agent shall consent to the making of such payments directly to the Lenders, to pay to the Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Agent, its agents, financial advisors and counsel, and any other amounts due the Agent. Nothing contained in this Agreement or the other Loan Documents shall be deemed to authorize the Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Loans, or the rights of any holder thereof, or to authorize the Agent to vote in respect of the claim of any Lender in any such proceeding, except as specifically permitted herein.

(J) Exercise of Remedies. Each Lender agrees that it will not have any right individually to enforce or seek to enforce this Agreement or any Loan Document or to realize upon any collateral security for the Loans, it being understood and agreed that such rights and remedies may be exercised only by Agent.

9.2 Notice of Default. In the event that the Agent or any Lender shall acquire actual knowledge, or shall have been notified of any Event of Default, the Agent or such Lender shall promptly notify the Lenders and the Agent.

9.3 Action by Agent.

The Agent shall be entitled to use its discretion with respect to exercising or refraining from exercising any rights which may be vested in it by, and with respect to taking or refraining from taking any action or actions which it may be able to take under or in respect of, this Agreement, unless the Agent shall have been instructed by either the Requisite Lenders or all of the Lenders required for an action hereunder (as applicable) to exercise or refrain from exercising such rights or to make or refrain from taking such action. The Agent shall incur no liability under or in respect of this Agreement with respect to anything which it may do or refrain from doing in the reasonable exercise of its judgment or which may seem to it to be necessary or desirable in the circumstances, except for its gross negligence or willful misconduct. Agent shall not be liable to the Lenders or to any Lender in acting or refraining from acting under this Agreement in accordance with the instructions of the Requisite Lenders, or all of the Lenders, as the case may be, and any action taken or failure to act pursuant to such instructions shall be binding on all Lenders.

9.4 Amendments, Waivers and Consents.

(A) Except as otherwise provided herein, no amendment, modification, termination or waiver of any provision of this Agreement or any other Loan Document, or consent to any departure by any Loan Party therefrom, shall in any event be effective unless the same shall be in writing and signed by Requisite Lenders or Agent at the request of Requisite Lenders, as applicable; provided, that no amendment, modification, termination, waiver or consent shall, unless in writing and signed by all Lenders, do any of the following: (i) increase any of the Commitments; (ii) reduce the principal amount of any Loan or reduce the rate of interest on or fees payable with respect to any Loan or Letter of Credit;

(iii) change the terms or amount of the Swingline Loan; (iv) change the definition of Borrowing Base, Eligible Accounts, Eligible Inventory or Eligible Retail Inventory; (v) change the sub-limits for Letters of Credit and Acceptances, Eligible Inventory and Eligible Retail Inventory; provided, however, that Agent shall have the discretion to increase the Borrowing Base sublimit for Eligible Retail Inventory to a maximum of \$4,000,000 without the consent of any Lender so long as no Default or Event of Default shall have occurred and be continuing; (vi) change the Letter of Credit Reserve Account; (vii) reduce the principal amount of any Loan or reduce the rate of interest on or reduce any fees payable with respect to any Loan or Letter of Credit; (viii) postpone the schedule date of payment of the principal amount of any Loan or Letter of Credit or extend the scheduled due date for all or any portion of the principal of the Loans or any interest or any fees payable or reduce the amount of, waive or excuse any such payment, or postpone the schedule date of expiration of the Commitment thereunder or make any determination or grant any consent thereunder; (ix) amend the definition of the term "Requisite Lenders"; (x) release Collateral except as provided in subsection 9.1(H); (xi) amend or waive this subsection 9.4; (xi) increase by more than five percent the percentages contained in the definition of Borrowing Base so long as no Default or Event of Default shall have occurred and be continuing; or (xii) amend or waive any Event of Default in respect of subsection 8.1(F); provided, further, that no amendment, modification, termination, waiver or consent affecting the rights or duties of Agent under any Loan Document shall in any event be effective, unless in writing and signed by Agent, in addition to the Lenders required to take such action, and provided, further, that no amendment, modification, waiver or consent of any provision relating to the Swingline Loan shall be effective unless in writing and signed by Swingline Lender;

(B) Each amendment, modification, termination, waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given. No amendment, modification, termination or waiver shall be required for Agent to take additional Collateral;

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(C) Each Lender grants Agent the right to purchase all, but not less than all, of such Lender's Commitment, in the event Agent requests the consent of a Lender and such consent is denied. In such circumstances, Agent may, at its option, require such Lender to assign its interest in the Loans to Agent or Agent's designee for a price equal to the then outstanding principal amount thereof plus accrued and unpaid interest and fees due such Lender, which interest and fees will be paid when collected from Borrower;

Notwithstanding anything in this subsection 9.4, Agent and Borrower, without the consent of either Requisite Lenders or all Lenders, may execute amendments to this Agreement and the Loan Documents which consist solely of the making of typographical corrections.

9.5 Assignments and Participations in Loans.

(A) Each Lender may assign its rights and delegate its obligations under this Agreement to an Eligible Assignee; provided, that (a) prior to the occurrence of an Event of Default which is continuing such Lender shall first obtain the written consent of Agent and Borrower, which shall not be unreasonably withheld (unless such assignment is required by operation of law), (b) the amount of Commitments and Loans of the assigning Lender being assigned shall in no event be less than the lesser of (i) \$15,000,000 or (ii) the entire amount of the Commitments and Loans of such assigning Lender and (c)(i) each such assignment shall be of a pro rata portion of all such assigning Lender's Loans and Commitments hereunder, and (ii) the parties to such assignment shall execute and deliver to Agent for acceptance and recording a Assignment and Assumption Agreement together with (x) a processing and recording fee of \$3,500 payable to Agent and (y) each of the Notes originally delivered to the assigning Lender. Upon receipt of all of the foregoing, Agent shall notify Borrower of such assignment and Borrower shall comply with its obligations under the last sentence of subsection 2.1(G). To the extent of an assignment authorized under this subsection 9.5, upon Agent's receipt and acceptance of the Assignment and Acceptance Agreement and Agent's receipt of the recording fee set forth above, the assignee shall be considered to be a "Lender" hereunder and Borrower hereby

acknowledges and agrees that any assignment will give rise to a direct obligation of Borrower to the assignee. The assigning Lender shall be relieved of its obligations hereunder with respect to the assigned portion of its Commitment.

(B) Each Lender may sell participations in all or any part of any Loans made by it to another Person identified as of June 21, 1998 to Borrower; provided, that any such participation shall be in a minimum amount of \$5,000,000, and provided, further, that all amounts payable by Borrower hereunder shall be determined as if that Lender had not sold such participation and the holder of any such participation shall not be entitled to require such Lender to take or omit to take any action hereunder except action directly effecting (a) any reduction in the principal amount or an interest rate on any Loan in which such holder participates; (b) any extension of the Termination Date or the date fixed for any payment of interest payable with respect to any Loan in which such holder participates; and (c) any release of substantially all of the Collateral. Borrower hereby acknowledges and agrees that the participant under each participation shall for purposes of subsections 2.8, 2.9, 2.10, 9.6 and 10.2 be considered to be a "Lender". No such participant shall sell, pledge, assign, sub-participate or otherwise transfer its rights or duties under its participation agreement, without the prior written consent of Agent and Borrower; except to a parent, subsidiary or affiliate of Participant upon prior written notice to Agent and no such sale, pledge, assignment, sub-participation or other transfer shall release Participant from its obligations and liabilities under the Participation Agreement.

(C) Except as otherwise provided in subsection 9.5(A) no Lender shall, as between Borrower and that Lender, be relieved of any of its obligations hereunder as a result of any sale, assignment, transfer or negotiation of, or granting of participation in, all or any part of the Loans or other Obligations owed to such Lender. Each Lender may furnish any information concerning Borrower and its Subsidiaries in the possession of that Lender from time to time to Eligible Assignees and participants (including prospective assignees and participants) provided that the Persons obtaining such information agrees to maintain the confidentiality of such information to the extent required by subsection 10.18.

(D) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time create a security interest in all or any portion of its rights under this Agreement or the other Loan Documents in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

9.6 Set Off and Sharing of Payments. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default, each Lender is hereby authorized by Borrower at any time or from time to time, with reasonably prompt subsequent notice to Borrower or to any other Person (any prior or contemporaneous notice being hereby expressly waived) to set off and to appropriate and to apply any and all (a) balances held by such Lender at any of its offices for the account of Borrower or any of its Subsidiaries (regardless of whether such balances are then due to Borrower or its Subsidiaries), and (b) other property at any time held or owing by such Lender to or for the credit or for the account of Borrower or any of its Subsidiaries, against and on account of any of the Obligations which are not paid when due; except that no Lender shall exercise any such right without the prior written consent of Agent. Any Lender which has exercised its right to set off shall purchase for cash (and the other Lenders shall sell) participations in each such other Lender's Pro Rata Share of the Obligations as would be necessary to cause such Lender to share such excess with each other Lender in accordance with their respective Pro Rata Shares. Borrower agrees, to the fullest extent permitted by law, that (a) any Lender may exercise its right to set off with respect to amounts in excess of its Pro Rata Share of the Obligations and may sell participations in such excess to other Lenders, and (b) any Lender so purchasing a participation in the Loans made or other Obligations held by other Lenders may exercise all rights of set-off, bankers' lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans and other Obligations in the amount of such participation.

9.7 Disbursement of Funds. Agent may, on behalf of Lenders, disburse funds to Borrower for Loans requested. Each Lender shall reimburse Agent on demand for all funds disbursed on its behalf by Agent, or if Agent so requests, each Lender will remit to Agent its Pro Rata Share of any Loan or Advance before Agent

disburses same to Borrower. If Agent elects to require that funds be made available prior to disbursement to Borrower, Agent shall advise each Lender by telephone, telex or telecopy of the amount of such Lender's Pro Rata Share of such requested Loan no later than (a) 10:00 a.m. (Central time) two Business Days prior to the Funding Date applicable thereto for LIBOR Loans and (b) by 1:00 p.m. Central time on the Funding Date for Base Rate Loans, and each such Lender shall pay Agent such Lender's Pro Rata Share of such requested Loan, in same day funds, by wire transfer to Agent's account not later than 12:00 p.m. Central time on such Funding Date for LIBOR Loans and 3:00 p.m. Central time for Base Rate Loans.

9.8 Settlements, Payments and Information.

(A) Revolving Advances and Payments; Fee Payments.

(1) Payments of principal in respect of the Term Loans will be settled on the Business Day received in accordance with the provisions of Section 2. The Revolving Loan may fluctuate from day to day through Agent's disbursement of funds to, and receipt of funds from, Borrower. In order to minimize the frequency of transfers of funds between Agent and each Lender notwithstanding terms to the contrary set forth in Section 2 and subsection 9.7, Revolving Advances and repayments (except as set forth in subsection 2.1(E)) may be settled according to the procedures described in this subsection 9.8. Notwithstanding these procedures, each Lender's obligation to fund its Pro Rata Share of Advances made by Agent to Borrower will commence on the date such Advances are made by Agent. Such payments will be made by such Lender without set-off, counterclaim or reduction of any kind.

(2) Once each week for the Revolving Loan or more frequently (including daily), if Agent so elects (each such day being a "Settlement Date"), Agent will advise each Lender by 12:00 noon Central time as to Base Rate Loans and 3:00 p.m. Central time as to LIBOR Loans by telephone, telex, or telecopy of the amount of each such Lender's Pro Rata Share of the Revolving Loan. In the event payments are necessary to adjust the amount of such Lender's share of the Revolving Loan to such Lender's Pro Rata Share of the Revolving Loan, the party from which such payment is due will pay the other, in same day funds, by wire transfer to the other's account not later than 3:00 p.m. Central time on the Settlement Date.

(3) On the first Business Day of each month ("Interest Settlement Date"), Agent will advise each Lender by telephone, telefax or telecopy of the amount of interest and fees charged to and collected from Borrower for the preceding month. Provided that such Lender has made all payments required to be made by it under this Agreement, Agent will pay to such Lender, by wire transfer to such Lender's account (as specified by such Lender on the signature page of this Agreement as amended by such Lender from time to time after the date hereof or in the applicable Assignment and Assumption Agreement) not later than 2:00 p.m. Central time on the Interest Settlement Date such Lender's share of such interest and such Lender's Pro Rata Share of such fees.

(B) Return of Payments

(1) If Agent pays an amount to a Lender under this Agreement in the belief or expectation that a related payment has been or will be received by Agent from Borrower and such related payment is not received by Agent, then Agent will be entitled to recover such amount from such Lender without set-off, counterclaim or deduction of any kind.

(2) If Agent determines at any time that any amount received by Agent under this Agreement must be returned to Borrower or paid to any other person pursuant to any solvency law or otherwise, then, notwithstanding any other term or condition of this Agreement, Agent will not be required to distribute any portion thereof to any Lender. In addition, each Lender will repay to Agent on demand any portion of such amount that Agent has distributed to such Lender, together with interest at such rate, if any, as Agent is required to pay to Borrower or such other Person, without set-off, counterclaim or deduction of any kind.

9.9 Dissemination of Information. Agent will provide Lenders with any information received by Agent from Borrower which is required to be provided to a Lender hereunder; provided, however, that Agent shall not be liable to Lenders for any failure to do so, except to the extent that such failure is attributable

to Agent's gross negligence or willful misconduct.

9.10 Discretionary Advances. Agent may, in its sole discretion following an Event of Default which is continuing, make Revolving Advances on behalf of Lenders in an aggregate amount of not more than \$250,000 irrespective of any limitations set forth in the Borrowing Base for the purpose of preserving or protecting the Collateral or for incurring any costs associated with collection or enforcing rights or remedies against the Collateral or incurred in any action to enforce this Agreement or any other Loan Document ("Discretionary Advances").

SECTION 10. MISCELLANEOUS

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10.1 Expenses and Attorneys' Fees. Whether or not the transactions contemplated hereby shall be consummated, Borrower agrees to promptly pay all fees, costs and expenses incurred in connection with any matters contemplated by or arising out of this Agreement or the other Loan Documents including the following, and all such fees, costs and expenses shall be part of the Obligations, payable on demand and secured by the Collateral: (a) fees, costs and expenses incurred by Agent (including attorneys' fees, allocated costs of internal counsel and fees of environmental consultants, accountants and other professionals retained by Agent) incurred in connection with the examination, review, due diligence investigation, documentation and closing of the financing arrangements evidenced by the Loan Documents; (b) fees, costs and expenses incurred by Agent (including attorneys' fees, allocated costs of internal counsel and fees of environmental consultants, accountants and other professionals retained by Agent) incurred in connection with the review, negotiation, preparation, documentation, execution, syndication, and administration of the Loan Documents, the Loans, and any amendments, waivers, consents, forbearances and other modifications relating thereto or any subordination or intercreditor agreements; (c) fees, costs and expenses incurred by Agent or any Lender in creating, perfecting and maintaining perfection of Liens in favor of Agent, on behalf of Lenders; (d) fees, costs and expenses incurred by Agent in connection with forwarding to Borrower the proceeds of Loans including Agent's or any Lenders' standard wire transfer fee; (e) fees, costs, expenses and bank charges, including bank charges for returned checks, incurred by Agent or any Lender in establishing, maintaining and handling lock box accounts, blocked accounts or other accounts for collection of the Collateral; (f) fees, costs, expenses (including attorneys' fees and allocated costs of internal counsel) of Agent or any Lender and costs of settlement incurred in collecting upon or enforcing rights against the Collateral or incurred in any action to enforce this Agreement or the other Loan Documents or to collect any payments due from Borrower or any other Loan Party under this Agreement or any other Loan Document or incurred in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement, whether in the nature of a "workout" or in connection with any insolvency or bankruptcy proceedings or otherwise.

10.2 Indemnity. In addition to the payment of expenses pursuant to subsection 10.1, whether or not the transactions contemplated hereby shall be consummated, Borrower agrees to indemnify, pay and hold Agent and each Lender, and the officers, directors, employees, agents, consultants, auditors, persons engaged by Agent or any Lender, to evaluate or monitor the Collateral, affiliates and attorneys of Agent, Lender and such holders (collectively called the "Indemnitees") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including the fees and disbursements of counsel for such Indemnitees in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not such Indemnitee shall be designated a party thereto) that may be imposed on, incurred by, or asserted against that Indemnitee, in any manner relating to or arising out of this Agreement or the other Loan Documents, the consummation of the transactions contemplated by this Agreement, the statements contained in the commitment letters, if any, delivered by Agent or any Lender, Agent's and each Lender's agreement to make the Loans hereunder, the use or intended use of the proceeds of any of the Loans or the exercise of any right or remedy hereunder or under the other Loan Documents (the "Indemnified Liabilities"); provided that Borrower shall have no obligation to an Indemnitee

hereunder with respect to Indemnified Liabilities arising from the gross negligence or willful misconduct of that Indemnitee as determined by a court of competent jurisdiction.

10.3 Notices. Unless otherwise specifically provided herein, all notices shall be in writing addressed to the respective party as set forth below and may be personally served, telecopied or sent by overnight courier service or United States mail and shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted on a Business Day before 4:00 p.m. Central time or, if not, on the next succeeding Business Day; (c) if delivered by overnight courier, two days after delivery to such courier properly addressed; or (d) if by U.S. Mail, four Business Days after depositing in the United States mail, with postage prepaid and properly addressed.

If to Borrower: SKECHERS U.S.A., INC.
228 Manhattan Beach Boulevard Suite 200
Manhattan Beach, CA 90266
Attn: David Weinberg
Telecopy No.: (310) 318-5019

If to Agent or HELLER FINANCIAL, INC.
to Heller: 505 N. Brand Boulevard
Glendale, CA 91203
Attn: CAMG Portfolio Manager
Telecopy No.: (818) 409-1846

With a copy to: HELLER FINANCIAL, INC.
505 N. Brand Boulevard
Glendale, CA 91203
Attn: CAMG Portfolio Manager
Telecopy No.: (818) 246-6380

If to any Lender: Its address indicated on the signature page hereto, in an Assignment and Assumption Agreement or in a notice to Agent and Borrower or to such other address as the party addressed shall have previously designated by written notice to the serving party, given in accordance with this subsection 10.3.

10.4 Survival of Representations and Warranties and Certain Agreements. All agreements, representations and warranties made herein shall survive the execution and delivery of this Agreement and the making of the Loans hereunder. Notwithstanding anything in this Agreement or implied by law to the contrary, the agreements of Borrower and Lender set forth in subsections 10.1, 10.2, 10.6, 10.11, 10.14, and 10.15 (Borrower's agreement to pay fees, agreement to indemnify Lender, the reinstatement of Obligations, agreement as to choice of law and jurisdiction and Borrower's and Lender's waiver of a jury trial) shall survive the payment of the Loans and the termination of this Agreement.

10.5 Indulgence Not Waiver. No failure or delay on the part of Agent, any Lender or any holder of any Note in the exercise of any power, right or privilege hereunder or under any Note shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

10.6 Marshaling; Payments Set Aside. Neither Agent nor any Lender shall be under any obligation to marshal any assets in favor of any Loan Party or any other party or against or in payment of any or all of the Obligations. To the extent that any Loan Party makes a payment or payments to Agent and/or any Lender or Agent and/or any Lender enforces its security interests or exercise its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the Obligations or part thereof originally intended to be satisfied, and all Liens, rights and remedies therefor, shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

10.7 Entire Agreement. This Agreement and the other Loan Documents embody

the entire agreement among the parties hereto and supersede all prior commitments, agreements, representations, and understandings, whether written or oral, relating to the subject matter hereof, and may not be contradicted or varied by evidence of prior, contemporaneous, or subsequent oral agreements or discussions of the parties hereto.

10.8 Severability. The invalidity, illegality or unenforceability in any jurisdiction of any provision in or obligation under this Agreement or the other Loan Documents shall not affect or impair the validity, legality or enforceability of the remaining provisions or obligations under this Agreement, or the other Loan Documents.

10.9 Lenders' Obligations Several; Independent Nature of Lenders' Rights. The obligation of each Lender hereunder is several and not joint and neither Agent nor any Lender shall be responsible for the obligation or Commitment of any other Lender hereunder. In the event that any Lender at any time should fail to make a Loan as herein provided, the Lenders, or any of them, at their sole option, may make the Loan that was to have been made by the Lender so failing to make such Loan. Nothing contained in any Loan Document and no action taken by Agent or any Lender pursuant hereto or thereto shall be deemed to constitute Lenders to be a partnership, an association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each Lender shall be a separate and independent debt, and, provided Agent fails or refuses to exercise any remedies against Borrower after receiving the direction of the Requisite Lenders, each Lender shall be entitled to protect and enforce its rights arising out of this Agreement and it shall not be necessary for any other Lender to be joined as an additional party in any proceeding for such purpose.

10.10 Headings. Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

10.11 APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

10.12 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, provided, however, Borrower may not assign its rights or obligations hereunder without the written consent of Lenders; provided, further, however, that Borrower may assign its rights in conjunction with an initial public offering provided that Borrower complies with Subsection 7.6.

10.13 No Fiduciary Relationship; No Duty; Limitation of Liabilities.

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(A) No provision in this Agreement or in any of the other Loan Documents and no course of dealing between the parties shall be deemed to create any fiduciary duty by Agent or any Lender to Borrower.

(B) All attorneys, accountants, appraisers, and other professional Persons and consultants retained by Agent or any Lender shall have the right to act exclusively in the interest of Agent or such Lender and shall have no duty of disclosure, duty of loyalty, duty of care, or other duty or obligation of any type or nature whatsoever to Borrower or any of Borrower's shareholders or any other Person.

(C) Neither Agent nor any Lender, nor any affiliate, officer, director, shareholder, employee, attorney, or agent of Agent or any Lender shall have any liability with respect to, and Borrower hereby waives, releases, and agrees not to sue any of them upon, any claim for any special, indirect, incidental, or consequential damages suffered or incurred by Borrower in connection with, arising out of, or in any way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the other Loan Documents. Borrower hereby waives, releases, and agrees not to sue Agent or any Lender or any of Agent's or any Lender's affiliates, officers, directors, employees, attorneys, or agents for punitive damages in respect of any claim in connection with, arising out of, or in any

way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the transactions contemplated hereby.

10.14 CONSENT TO JURISDICTION. BORROWER HEREBY CONSENTS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA AND IRREVOCABLY AGREES THAT, SUBJECT TO AGENT'S ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS SHALL BE LITIGATED IN SUCH COURTS. BORROWER EXPRESSLY SUBMITS AND CONSENTS TO THE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS. BORROWER HEREBY WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS AND AGREES THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE UPON BORROWER BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, ADDRESSED TO BORROWER, AT THE ADDRESS SET FORTH IN THIS AGREEMENT AND SERVICE SO MADE SHALL BE COMPLETE 10 DAYS AFTER THE SAME HAS BEEN POSTED.

10.15 WAIVER OF JURY TRIAL. BORROWER, AGENT AND EACH LENDER HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS. BORROWER, AGENT AND EACH LENDER ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. BORROWER, AGENT AND EACH LENDER

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WARRANT AND REPRESENT THAT EACH HAS HAD THE OPPORTUNITY OF REVIEWING THIS JURY WAIVER WITH LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS.

10.16 Construction. Borrower, Agent and each Lender each acknowledge that it has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Agreement and the other Loan Documents with its legal counsel and that this Agreement and the other Loan Documents shall be construed as if jointly drafted by Borrower, Agent and each Lender.

10.17 Counterparts; Effectiveness. This Agreement and any amendments, waivers, consents, or supplements may be executed via telecopier or facsimile transmission in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute one and the same instrument. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto.

10.18 Confidentiality. Agent and Lenders shall hold all nonpublic information obtained pursuant to the requirements hereof and identified as such by Borrower in accordance with such Person's customary procedures for handling confidential information of this nature and in accordance with safe and sound business practices and in any event may make disclosure to such of its respective affiliates, officers, directors, employees, agents and representatives as need to know such information in connection with the Loans. If any Lender or its respective affiliates is otherwise a creditor of a Borrower, such Lender may use the information in connection with its other creditors. Agent and Lenders may also make disclosure reasonably required by a bona fide offeree or assignee (or participation), or as required or requested by any Governmental Authority or representative thereof, or pursuant to legal process, or to its accountants, lawyers and other advisors, and shall require any such offeree or assignee (or participant) to agree (and require any of its offerees, assignees or participants to agree) to comply with this Section 10.18. In no event shall Agent or any Lender be obligated or required to return any materials furnished by Borrower; provided, however, each offeree shall be required to agree that if it does not become an assignee (or participant) it shall return all materials furnished to it by Borrower in connection herewith.

SECTION 11. DEFINITIONS AND ACCOUNTING TERMS

11.1 Definitions. The following terms used in this Agreement shall have the following meanings:

"Accounts" means all "accounts" (as defined in the UCC), accounts receivable, contract rights and general intangibles relating thereto, notes,

drafts and other forms of obligations owed to or owned by Borrower arising or resulting from the sale of goods or the rendering of services, whether or not earned by performance.

"Additional Mortgaged Property" means all real property owned or leased by Borrower or its Subsidiaries in which Agent requires a mortgage to secure the Obligations after the Closing Date.

"Advance" shall mean an advance under the Swingline Loan or Revolving Loan.

"Affiliate" means any Person (other than Agent or any Lender): (a) directly or indirectly controlling, controlled by, or under common control with, any Loan party; (b) directly or indirectly owning or holding 5% or more of any equity interest in Borrower; (c) 5% or more of whose stock or other equity interest having ordinary voting power for the election of directors or the power to direct or cause the direction of management, is directly or indirectly owned or held by Borrower; or (d) which has a senior officer who is also a senior officer of Borrower. For purposes of this definition, "control" (including with correlative meaning, the terms "controlling", "controlled by" and "under common control with") means the possession directly or indirectly of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities or other equity interest, or by contract or otherwise.

"Agent" means Heller in its capacity as agent for the Lenders under the Loan Documents and any successor in such capacity appointed pursuant to subsection 9.1(G).

"Agent's Account" means ABA No. 0710-0001-3, Account No. 52-98695 at First National Bank of Chicago, One First National Plaza, Chicago, IL 60670, Reference: Heller Business Credit for the benefit of Skechers U.S.A., Inc.

"Agent's Fee Letter" means that certain letter agreement between Agent and Borrower dated September 4, 1998 in respect to certain fees payable to Agent in respect of administering this Agreement.

"Agreement" means this Loan and Security Agreement, as it may be amended, restated, supplemented or otherwise modified from time to time.

"Asset Disposition" means the disposition by Borrower or any of its Subsidiaries, whether by sale, lease, transfer loss, damage, destruction, condemnation or otherwise, of any or all of the computer and material handling equipment that was purchased utilizing the proceeds of Term Loan A.

"Assignment and Assumption Agreement" shall mean an Assignment and Assumption Agreement substantially in the form of Exhibit A.

"Bank Letter of Credit" means each letter of credit issued by a bank acceptable to and approved by Agent for the account of Borrower and supported by a risk participation agreement issued by Agent.

"Base Rate" means a variable rate of interest per annum equal to the higher of (a) the rate of interest from time to time published by the Board of Governors of the Federal Reserve System as the "Bank Prime Loan" rate in Federal Reserve Statistical Release H.15(519) entitled "Selected Interest Rates" or any successor publication of the Federal Reserve System reporting the Bank Prime Loan rate or its equivalent or the prime commercial lending rate in effect from time to time as announced by The Chase Manhattan Bank, N.A., and two other referenced institutions, prime commercial, or (b) the Federal Funds Effective Rate, as published by the Federal Reserve Bank of New York, plus one-half of one percent (0.50%). In the event the Board of Governors of the Federal Reserve System ceases to publish a Bank Prime Loan rate or its equivalent, the term "Base Rate" shall mean a variable rate of interest per annum equal to the highest of the "prime rate", "reference rate", "base rate", or other similar rate announced from time to time by any of the three largest banks located in New York City, New York (the understanding that any such rate may merely be reference rate and may not necessarily represent the lowest or best rate actually charged to any customer by any such bank).

"Base Rate Loans" means Loans bearing interest at rates determined by reference to the Base Rate.

"Borrower's Accountants" means the independent certified public accountants selected by Borrower and its Subsidiaries and reasonably acceptable to Agent, which selection shall not be modified during the term of this Agreement without Agent's prior written consent.

"Borrowing Base" has the meaning assigned to that term in subsection 2.1(B)(2).

"Borrowing Base Certificate" means a certificate and schedule duly executed by an officer of Borrower appropriately completed and in substantially the form of Exhibit B.

"Business Day" means any day excluding Saturday, Sunday and any day which is a legal holiday under the laws of the States of Illinois, Pennsylvania or California, or is a day on which banking institutions located in any such state are closed, or for the purposes of LIBOR Loans only, a day on which commercial banks are open for dealings in Dollar deposits in the London, England (U.K.) market.

"Cash Equivalents" means: (a) marketable direct obligations issued or unconditionally guaranteed by the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within six months from the date of acquisition thereof; (b) commercial paper maturing no more than six months from the date issued and, at the time of acquisition, having a rating of at least A-1 from Standard & Poor's Corporation or at least P-1 from Moody's Investors Service, Inc.; and (c) certificates of deposit or bankers' acceptances maturing within six months from the date of issuance thereof issued by, or overnight reverse repurchase agreements from any commercial bank organized under the laws of the United States of America, or any state thereof or the District of Columbia, having combined capital and surplus of not less than \$250,000,000 and not subject to set off rights in favor of such bank.

"Closing Date" means September 4, 1998.

"Collateral" has the meaning assigned to that term in subsection 2.7.

"Commitment" or "Commitments" means the commitment or commitments of Lenders to make Loans as set forth in subsections 2.1(A) and/or 2.1(B) and to provide Lender Letters of Credit as set forth in subsection 2.1(H).

"Compliance Certificate" means a certificate duly executed by the chief executive officer or chief financial officer of Borrower appropriately completed and in substantially in the form of Exhibit B.

"Default" means a condition, act or event that, after notice or lapse of time or both, would constitute an Event of Default if that condition, act or event were not cured or removed within any applicable grace or cure period.

"Default Rate" has the meaning assigned to that term in subsection 2.2.

"Defaulted Amount" means, with respect to any Lender at any time, any amount required to be paid by such Lender to the Agent or any other Lender hereunder or under any other Loan Document which has not been so paid.

"Defaulting Lender" means, at any time, any Lender that owes a Defaulted Amount.

"Discretionary Advance" has the meaning assigned to such term in subsection 9.10.

"Eligible Assignee" shall mean (a) a commercial bank, savings bank or a commercial finance company, in each case organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least \$100,000,000 (or \$250,000,000 in the case of an assignment of a Revolving Loan Commitment); (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and

Development (the "OECD"), or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000 (of \$250,000,000 in the case of an assignment of a Revolving Loan Commitment); provided that such bank is acting through a branch or agency located in the country in which it is organized or another country which is also a member of the OECD; (c) any other entity which is an "accredited investor" (as defined in Regulation D under the Securities Act) which extends credit or buys loans as one of its businesses, including but not limited to, insurance companies, mutual funds and lease financing companies, and (d) a Person that is primarily engaged in the business of lending that is (i) a Subsidiary of a Lender, (ii) a Subsidiary of a Person of which a Lender is a Subsidiary, or (iii) a Person of which a Lender is a Subsidiary; provided, however, that no Affiliate of Borrower shall be an Eligible Assignee.

"Employee Benefit Plan" means any employee benefit plan within the meaning of Section 3(3) of ERISA which (a) is maintained for employees of any Loan Party or any ERISA Affiliate or (b) has at any time within the preceding six years been maintained for the employees of any Loan Party or any current or former ERISA Affiliate.

"Environmental Claims" means claims, liabilities, investigations, litigation, administrative proceedings, judgments or orders relating to Hazardous Materials.

"Environmental Laws" means any present or future federal, state or local law, rule, regulation or order relating to pollution, waste, disposal of the protection of human health or safety, plant life or animal life, natural resources or the environment.

"Equipment" means all "equipment" (as defined in the UCC), all furniture, furnishings, fixtures, machinery, motor vehicles, trucks, trailers, vessels, aircraft and rolling stock and all parts thereof and all additions and accessions thereto and replacements therefor.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor statutes and all rules and regulations promulgated thereunder.

"ERISA Affiliate", as applied to any Loan Party, means any Person who is a member of a group which is under common control with any Loan Party, who together with any Loan Party is treated as single employer within the meaning of Section 414(b) and (c) of the IRC.

"Federal Funds Effective Rate" means, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the immediately following Business Day by the Board of Governors of the Federal Reserve System as the Federal Funds Rate or Federal Reserve Statistical Release H.15(519) entitled "Selected Interest Rates" or any successor publication of the Federal Reserve System reporting the Federal Funds Effective Rate or its equivalent or, if such rate is not published for any Business Day, the average of the quotations for the day of the requested Loan received by Agent from three Federal funds brokers of recognized standing selected by Agent.

"Fiscal Month" means each month of each Fiscal Year.

"Fiscal Year" means each twelve month period ending on the last day of December in each year.

"Funding Date" means the date of each funding of a Loan or issuance of a Lender Letter of Credit.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board that are applicable to the circumstances as of the date of determination.

"Guarantor" has the meaning ascribed to such term in the Recitals.

"Guarantor Cash Collateral" means \$13,250,000 pledged by Guarantor under the Cash Collateral Pledge Agreement to secure its obligations to Agent pursuant to the Guaranty.

"Guaranty" means the Guaranty of Borrower's Obligations executed by Guarantor.

"Hazardous Material" means all or any of the following: (a) substances that are defined or listed in, or otherwise classified pursuant to, any Environmental Laws or regulations as "hazardous substances", "hazardous materials", "hazardous wastes", "toxic substances" or any other formulation intended to define, list or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, or toxicity; (b) oil, petroleum or petroleum derived substances, natural gas, natural gas liquids or synthetic gas and drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources; (c) any flammable substances or explosives or any radioactive materials; and (d) asbestos in any form or electrical equipment which contains any oil or dielectric fluid containing polychlorinated biphenyls.

"Indebtedness", as applied to any Person, means without duplication: (a) all indebtedness for borrowed money; (b) obligations under leases which in accordance with GAAP constitute Capital Leases; (c) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money; (d) any obligation owed for all or any part of the deferred purchase price of property or services if the purchase price is due more than six months from the date the obligation is incurred or is evidenced by a note or similar written instrument; (e) all indebtedness secured by any Lien on any property or asset owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is non recourse to the creditor of that Person; (f) obligations in respect of letters of credit and (g) any advances under any factoring arrangement.

"Intangible Assets" means all intangible assets (determined in conformity with GAAP) including, without limitation, goodwill, Intellectual Property, licenses, organizational costs, deferred amounts, covenants not to compete, unearned income and restricted funds.

"Intellectual Property" means all present and future designs, patents, patent rights and applications therefor, trademarks and registrations or applications therefor, trade names, inventions, copyrights and all applications and registrations therefor, software or computer programs, license rights, trade secrets, methods, processes, know-how, drawings, specifications, descriptions, and all memoranda, notes and records with respect to any research and development, whether now owned or hereafter acquired, all goodwill associated with any of the foregoing and proceeds of all of the foregoing, including, without limitation, proceeds of insurance policies thereon.

"Interest Determination Date" for a LIBOR Loan will be the second London Banking Day preceding the beginning of the next Interest Period elected by Borrower.

"Interest Period" means relative to any LIBOR Loan, the period beginning on (and including) the date on which such LIBOR Loan is made or continued as, or converted into, a LIBOR Loan pursuant to subsection 2.2(D), and shall end on (but exclude) the day which numerically corresponds to such date one, two or three months thereafter (or, if the applicable month has no numerically corresponding day, on the last Business Day of such month), in either case as Borrower may select in its relevant notice pursuant to subsection 2.2; provided, however:

(a) the initial Interest Period for any LIBOR Loan shall commence on the Funding Date of such Loan;

(b) in the case of successive Interest Periods, each successive Interest Period shall commence on the day on which the immediately preceding Interest Period expires;

(c) if an Interest Period expiration date is not a Business Day, such Interest Period shall expire on the next succeeding Business Day; provided that if any Interest Period expiration date is not a Business Day but is a day of the month after which no further Business Day occurs in such month, such Interest Period shall expire on the immediately preceding Business Day;

(d) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to part (e) below, end on the last Business Day of a calendar month;

(e) no Interest Period shall extend beyond the Termination Date;

(f) no Interest Period may extend beyond a scheduled principal payment date unless the sum of (A) the aggregate principal amount of Loans that are Base Rate Loans or that have Interest Periods expiring on or before such date and (B) the amount by which the Maximum Revolving Loan Amount is greater than the total outstanding Revolving Loan on the date such Interest Period is being requested, equals or exceeds (ii) the principal amount required to be paid on the Loans on such scheduled principal payment date; and

(g) there shall be no more than five (5) Interest Periods relating to LIBOR Loans outstanding at any time.

"Inventory" means all "inventory" (as defined in the UCC), including, without limitation, finished goods, raw materials, work in process and other materials and supplies used or consumed in a Person's business, and goods which are returned or repossessed.

"IRC" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute and all rules and regulations promulgated thereunder.

"Landlord Waiver and Consent" means an agreement in form and substance satisfactory to Agent permitting Agent access to Borrower's retail locations following a default and the agreement of such landlord as to the priority right of Agent in any Inventory located thereat.

"Lender Letter of Credit" has the meaning assigned to that term in subsection 2.1(G).

"Letter of Credit Liability" means, all reimbursement and other liabilities of Borrower or any of its Subsidiaries with respect to each Lender Letter of Credit, whether contingent or otherwise, including: (a) the amount available to be drawn or which may become available to be drawn; (b) all amounts which have been paid or made available by any Lender issuing a Lender Letter of Credit or any bank issuing a Bank Letter of Credit to the extent not reimbursed; and (c) all unpaid interest, fees and expenses related thereto.

"Letter of Credit Reserve" means, at any time, an amount equal to (a) 50% of the aggregate amount of Letter of Credit Liability with respect to all Lender Letters of Credit outstanding at such time plus, without duplication, (b) the aggregate amount theretofore paid by Agent or any Lender under Lender Letters of Credit and not debited to the Loan Account pursuant to subsection 2.1(G)(2) or otherwise reimbursed by Borrower.

"Liabilities" shall have the meaning given that term in accordance with GAAP and shall include Indebtedness.

"LIBOR" means, for each Interest Period, a rate determined in accordance with the following provisions:

(a) LIBOR will be either: (i) the rate for deposits in U.S. dollars for the relevant Interest Period commencing on the second London Banking Day immediately following that Interest Determination Date, that appears on the Telerate Page 3750 as of 11:00 a.m., London time, on that Interest Determination Date ("LIBOR Telerate") or (ii) the arithmetic mean of the offered rates for deposits in U.S. dollars for the relevant Interest Period commencing on the second London Banking Day immediately following that Interest Determination Date, that appear on the Reuters Screen LIBOR Page as of 11:00 a.m. London time, on that Interest Determination Date, if at least two such offered rates appear on the Reuters Screen LIBO Page ("LIBOR Reuters"). "Reuters Screen LIBO Page" means the display designated as page "LIBO" on the Reuters Monitor Money Rates

Service (or such other page as may replace the LIBO page on that service for the purpose of displaying London interbank offered rates of major banks). "Telerate Page 3750" means the display designated as page "3750" on the Telerate Services (or such other page as may replace the 3750 page on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits). If neither LIBOR Reuters nor LIBOR Telerate is specified, LIBOR will be determined as if LIBOR Telerate had been specified. If fewer than two offered rates appear on the Reuters Screen LIBO Page, or if no rate appears on the Telerate Page 3750, as applicable, LIBOR in respect of that Interest Determination Date will be determined as if the parties had specified the rate described in (b) below.

(b) With respect to an Interest Determination Date on which fewer than two offered rates appear on the Reuters Screen LIBO Page, as specified in (a)(ii) above, or on which no rate appears on Telerate Page 3750, as specified in (a)(i) above, as applicable, LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for the relevant Interest Period are offered at approximately 11:00 a.m. London time, on that Interest Determination Date by four major banks in the London interbank market selected by Agent ("Reference Banks") to prime banks in the London interbank market commencing on the second London Banking Day immediately following that Interest Determination Date and in a principal amount equal to an amount of not less than \$1,000,000 that is representative for a single transaction in such market at such time. Agent will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, LIBOR in respect of that Interest Determination Date will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR in respect of that Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. New York City time, on that Interest Determination Date by three major banks in the City of New York selected by Agent for loans in U.S. dollars to leading European banks for the relevant Interest Period commencing on the second London Banking Day immediately following that Interest Determination Date and in a principal amount equal to an amount of not less than \$1,000,000 that is representative for a single transaction in such market at such time; provided, however, that if the banks selected as aforesaid by Agent are not quoting as mentioned in this sentence, LIBOR with respect to such Interest Determination Date will be the rate of LIBOR in effect on such date.

The rate determined by either (a) or (b) shall be divided by a number equal to 1.0 minus the aggregate (but without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on the day which is two (2) Business Days prior to the beginning of such Interest Period (including, without limitation, basic, supplemental, marginal, special emergency or other reserves under any regulations of the Board of Governors of the Federal Reserve System or other governmental authority having jurisdiction with respect thereto, as now and from time to time in effect) for Eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of such Board) which are required to be maintained by a member bank of the Federal Reserve System (such rate to be adjusted to the nearest (1/16 of 1%) or, if there is not a nearest (1/16 of 1%), to the next higher (1/16 of 1%).

"LIBOR Loans" means at any time that portion of the Loans bearing interest at rates determined by reference to LIBOR.

"Lien" means any lien, mortgage, pledge, security interest, charge or encumbrance of any kind, whether voluntary or involuntary, (including any conditional sale or other title retention agreement, any lease in the nature thereof, and any agreement to give any security interest).

"Loan" or "Loans" means an advance or advances under the Term Loan Commitment, the Swingline Loans or the Revolving Loan Commitment.

"Loan Documents" means this Agreement, the Guaranty, the Subsidiary Guaranty, the Cash Collateral Pledge Agreement and all other documents, instruments and agreements executed by or on behalf of Borrower, Borrower's Subsidiaries or any Guarantor and delivered concurrently herewith or at any time hereafter to or for Agent or any Lender in connection with the Loans, any Lender Letter of Credit, and any other transaction contemplated by this Agreement, all as amended, restated, supplemented or modified from time to time.

"Loan Party" means each of Borrower, Borrower's Subsidiaries, any Guarantor and any other Person (other than Agent or any Lender) which is or

becomes a party to any Loan Document.

"Loan Year" means each period of 12 consecutive months commencing on the Closing Date and on each anniversary thereof.

"London Banking Day" means any day on which dealings in deposits in U.S. dollars are transacted in the London Interbank market.

"Material Adverse Effect" means a material adverse effect upon (a) the business, operations, prospects, properties, assets or condition (financial or otherwise) of any Loan Party on an individual basis or taken as a whole or (b) the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party or of Agent or any Lender to enforce or collect any of the Obligations.

"Maximum Revolving Loan Amount" has the meaning assigned to that term in subsection 2.1(B)(1).

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"Maximum Swingline Loan Amount" means at any time the lesser of (i) \$2,000,000, (ii) the Revolving Loan Commitments of all Lenders at such time and (iii) that amount which is the Borrowing Base at such time, less the sum of (x) the Revolving Loan at such time, (y) the Term Loans at such time and (z) the Letter of Credit Reserve at such time.

"Net Worth" means, as of any date, the sum of the capital stock and additional paid-in capital plus retained earnings (or less accumulated deficit) calculated in conformity with GAAP.

"Notes" means the Revolving Note, the Term Notes and the Swingline Note.

"Notice of Borrowing" means a Notice duly executed by an authorized representative of Borrower appropriately completed and in the form of Exhibit E.

"Notice of Conversion/Continuation" has the meaning assigned to that term in subsection 2.2(D).

"Obligations" means all obligations, liabilities and indebtedness of every nature of each Loan Party from time to time owed to Agent or to any Lender under the Loan Documents (whether incurred before or after the Termination Date) including the principal amount of all debts, claims and indebtedness, accrued and unpaid interest and all fees, costs and expenses, whether primary, secondary, direct, contingent, fixed or otherwise, heretofore, now and/or from time to time hereafter owing, due or payable including, without limitation, all interest, fees, cost and expenses accrued or incurred after the filing of any petition under any bankruptcy or insolvency law.

"Overadvance Amount" means \$2,000,000.

"Permitted Encumbrances" means the following types of Liens: (a) Liens (other than Liens relating to Environmental Claims for taxes, assessments or other governmental charges not yet due and payable; (b) statutory Liens of landlords, carriers, warehousemen, mechanics, materialmen and other similar liens imposed by law, which are incurred in the ordinary course of business for sums not more than 30 days delinquent; (c) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, statutory obligations, surety and appeal bonds, bids, leases, government contracts, trade contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money; (d) easements, rights-of-way, restrictions, and other similar charges or encumbrances not interfering in any material respect with the ordinary conduct of the business of any Loan Party or any of its Subsidiaries; (e) Liens for purchase money obligations, provided that (i) the purchase of the asset subject to any such Lien is permitted under subsection 6.5, (ii) the Indebtedness secured by any such Lien is permitted under subsection 7.1, and (iii) such Lien encumbers only the asset so purchased; (f) Liens in favor of Agent, on behalf of Lenders, and (g) Liens securing not more than \$2,500,000 in lease purchase debt on specified

equipment as set forth on Schedule 11.1.A.

"Person" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, limited liability partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and governments and agencies and political subdivisions thereof.

"Pro Rata Share" means (a) with respect to matters relating to a particular Commitment of a Lender, the percentage obtained by dividing (i) such Commitment of that Lender by (ii) all such Commitments of all Lenders and (b) with respect to all other matters, the percentage obtained by dividing (i) the Total Loan Commitment of a Lender by (ii) the Total Loan Commitments of all Lenders, in either case as such percentage may be adjusted by assignments permitted pursuant to subsection 9.5; provided, however, if any Commitment is terminated pursuant to the terms hereof, then "Pro Rata Share" means the percentage obtained by dividing (x) the aggregate amount of such Lender's outstanding Loans related to such Commitment by (y) the aggregate amount of all outstanding Loans related to such Commitment.

"Projections" means Borrower's forecasted consolidated and consolidating; (a) balance sheets; (b) profit and loss statements; (c) cash flow statements; and (d) capitalization statements, all prepared on a division by division and Subsidiary by Subsidiary basis consistent with Borrower's historical financial statements and based upon good faith estimates and assumptions by Borrower believed to be reasonable at the time made, together with appropriate supporting details and a statement of underlying assumptions.

"Requisite Lenders" means Lenders, (other than a Defaulting Lender), holding or being responsible of 51% or more of the sum of (a) outstanding Loans, (b) outstanding Letter of Credit Liability and (c) unutilized Commitments of all Lenders which are not Defaulting Lenders.

"Restricted Junior Payment" means: (a) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock of Borrower or any of its Subsidiaries now or hereafter outstanding, except a dividend payable solely with shares of the class of stock on which such dividend is declared; (b) any payment or prepayment of principal of, premium, if any, or interest on, or any redemption, conversion, exchange, retirement, defeasance, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any Indebtedness owing to any Affiliate or in respect of any shares of any class of stock of Borrower or any of its Subsidiaries now or hereafter outstanding, or the issuance of a notice of an intention to do any of the foregoing; (c) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of stock of Borrower or any of its Subsidiaries now or hereafter outstanding; and (d) any payment by Borrower or any of its Subsidiaries of any management, consulting or similar fees to any Affiliate, whether pursuant to a management agreement or otherwise.

"Revolving Advance" means each advance made by Lender(s) pursuant to subsection 2.1(B).

"Revolving Loan" means the outstanding balance of all Revolving Advances and any amounts added to the principal balance of the Revolving Loan pursuant to this Agreement.

"Revolving Loan Commitment" means (a) as to any Lender, the commitment of such Lender to make Revolving Advances pursuant to subsection 2.1(B), and to purchase participations in Lender Letters of Credit pursuant to subsection 2.1(G) and without duplication to purchase participation in the Swingline Loan pursuant to subsection 2.1(D) in the aggregate amount set forth on the signature page of this Agreement opposite such Lender's signature or in the most recent Assignment and Assumption Agreement, if any, executed by such Lender and (b) as to all Lenders, the aggregate commitment of all Lenders to make Revolving Advances and to purchase participations in Lender Letters of Credit.

"Revolving Note" means each promissory note of Borrower in form and substance reasonably acceptable to Agent, issued to evidence the Revolving Loan Commitments.

"Scheduled Installment" has the meaning assigned to that term in

subsection 2.1(A).

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the total voting power of shares of stock (or equivalent ownership or controlling interest) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other subsidiaries of that Person or a combination thereof.

"Subsidiary Guarantor" has the meaning ascribed to such term in the Recitals.

"Subsidiary Guaranty" means the Continuing Guaranty of Borrower's Obligations executed by Subsidiary Guarantor.

"Swingline Advance" means each advance made by Swingline Lender pursuant to subsection 2.1(D).

"Swingline Lender" means Heller, or if Heller shall resign as Swingline Lender, another Lender selected by Agent and reasonably acceptable to Borrower.

"Swingline Loan" means the outstanding balance of all Swingline Advances and any amounts added to the principal balance of the Swingline Loan pursuant to this Agreement.

"Swingline Note" means the promissory note of Borrower in form and substance acceptable to Agent, issued to evidence the Swingline Loan.

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

"Tax Distributions" means, for so long as Borrower is a Subchapter S corporation, dividends declared and paid by Borrower to its shareholders with respect to any tax year in which Borrower earns taxable income in an amount equal to the product of (a) income related to such person's ownership interest in Borrower multiplied by (b) the sum of the highest effective individual federal and state income tax rates in a state in which such shareholder resides which were applicable in such year.

"Term Loans" means the unpaid balance of the term loans made pursuant to subsection 2.1(A).

"Term Loan A" means the advances made pursuant to subsection 2.1(A)(1).

"Term Loan B" means the advances made pursuant to subsection 2.1(A)(2).

"Term Loan Commitment" means (a) as to any Lender, the commitment of such Lender to make its Pro Rata share of the Term Loans in the maximum aggregate amount set forth on the signature page of this Agreement opposite such Lender's signature or in the most recent Assignment and Assumption Agreements, if any, executed by such Lender and (b) as to all Lenders, the aggregate commitment of all Lenders to make the Term Loans.

"Term Note" means the promissory notes of Borrower in form and substance acceptable to Agent, issued to evidence the Term Loan Commitment.

"Total Loan Commitment" means as to any Lender the aggregate commitments of such Lender with respect to its Revolving Loan Commitment and Term Loan Commitment.

"UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of Illinois, as amended from time to time, and any successor statute.

"Working Capital" means as to any Person: (a) current assets; less (b) current liabilities; and less (c) the amount of any obligations owed to such Person or any of its Subsidiaries by any Affiliate of such Person or any of its Subsidiaries.

11.2 Accounting Terms. For purposes of this Agreement, all accounting terms not otherwise defined herein shall have the meanings assigned to such terms in conformity with GAAP. Financial statements and other information furnished to Agent or any Lender pursuant to subsection 5.1 shall be prepared in accordance with GAAP (as in effect at the time of such preparation) on a consistent basis. In the event any "Accounting Changes" (as defined below) shall occur and such changes affect financial covenants, standards or terms in this Agreement, then Borrower and Lenders agree to enter into negotiations in order to amend such provisions of this Agreement so as to equitably reflect such accounting Changes with the desired result that the criteria for evaluating the financial condition of Borrower shall be the same after such Accounting Changes as if such Accounting Changes had not been made, and until such time as such an amendment shall have been executed and delivered by Borrower and Requisite Lenders, (A) all financial covenants, standards and terms in this Agreement shall be calculated and/or construed as if such Accounting Changes had not been made, and (B) Borrower shall prepare footnotes to each Compliance Certificate and the financial statements required to be delivered hereunder that show the differences between the financial statements delivered (which reflect such Accounting Changes) and the basis for calculating financial covenant compliance (without reflecting such Accounting Changes). "Accounting Changes" means (a) changes in accounting principles required by GAAP and implemented by Borrower; and (b) changes in accounting principles recommended by Borrower's Accountants. All such adjustments resulting from expenditures made subsequent to the Closing Date (including, but not limited to, capitalization of costs and expenses or payment of pre-Closing Date liabilities) shall be treated as expenses in the period the expenditures are made and deducted as part of the calculation of EBITDA in such period.

11.3 Other Definitional Provisions. References to "Sections," "subsections," "Riders," "Exhibits," "Schedules", and "Addendums" shall be to Sections, subsections, Riders, Exhibits, Schedules and Addendums, respectively, of this Agreement unless otherwise specifically provided. Any of the terms defined in subsection 11.1 may, unless the context otherwise requires, be used in the singular or the plural depending on the reference. In this Agreement, words importing any gender include the other genders; the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation"; references to agreements and other contractual instruments shall be deemed to include subsequent amendments, assignments, and other modifications thereto, but only to the extent such amendments, assignments and other modifications are not prohibited by the terms of this Agreement or any other Loan Document; references to Persons include their respective permitted successors and assigns or, in the case of governmental Persons, Persons succeeding to the relevant functions of such

11.4 Persons; and all references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations.

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

SKECHERS U.S.A., INC.

By: /s/ David Weinberg

Title: Chief Financial
Officer

FEIN:

HELLER FINANCIAL, INC.

By: /s/ Nora Bose

Title: Assistant Vice
President

Revolving Loan Commitment:
\$120,000,000

Term Loan A Commitment:
\$2,775,000

Term Loan B Commitment:
\$13,250,000

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RIDERS

- A. Conditions Rider
- B. Reporting Rider
- C. Financial Covenants Rider

EXHIBITS:

- A. Borrowing Base Certificate
- B. Compliance Certificate
- C. Inventory Report
- D. Reconciliation Report
- E. Notice of Borrowing
- F. Notice of Conversion/Continuation

SCHEDULES:

- 3.1(A) List of Closing Documents
- 4.1(B) Capitalization of Loan Parties
- 4.6 Business and Trade Names (Present and Past Five Years); Location of
Principal Place of Business, Books and Records and Collateral
- 4.12 Intellectual Property
- 4.12(A) Licensing Agreements
- 4.19 Bank Accounts
- 4.20 Employee Matters
- 7.1 Indebtedness
- 7.11 Subsidiaries
- 11.1. A Other Liens

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CONDITIONS RIDER

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

(A) Closing Deliveries. Agent shall have received, in form and substance satisfactory to Agent and Lenders, all documents, instruments and information identified on Schedule 3.1(A) and all other agreements, notes, certificates, orders, authorizations, financing statements, mortgages and other

documents which Agent may at any time reasonably request.

(B) Security Interests. Agent and Lenders shall have received satisfactory evidence that all security interests and liens granted to Agent for the benefit of Lenders pursuant to this Agreement or the other Loan Documents have been duly perfected and constitute first priority liens on the Collateral, subject only to Permitted Encumbrances.

(C) Representations and Warranties. The representations and warranties contained herein and in the Loan Documents shall be true, correct and complete in all material respects on and as of that Funding Date to the same extent as though made on and as of that date, except for any representation or warranty limited by its terms to a specific date and taking into account any amendments to the Schedules or Exhibits as a result of any disclosures made by Borrower to Agent after the Closing Date and approved by Agent.

(D) Fees. With respect to Loans or Lender Letters of Credit to be made or issued on the Closing Date, Borrower shall have paid all fees due to Agent, Lender or any participant of any Lender and payable on the Closing Date.

(E) No Default. No event shall have occurred and be continuing or would result from funding a Loan or issuing a Lender Letter of Credit requested by Borrower that would constitute an Event of Default or a Default.

(F) Performance of Agreements. Each Loan Party shall have performed in all material respects all agreements and satisfied all conditions which any Loan Document provides shall be performed by it on or before that Funding Date.

(G) No Prohibition. No order, judgment or decree of any court, arbitrator or governmental authority shall purport to enjoin or restrain Agent or any Lender from making any Loans or issuing any Lender Letters of Credit.

(H) No Litigation. There shall not be pending or, to the knowledge of Borrower, threatened, any action, charge, claim, demand, suit, proceeding, petition, governmental investigation or arbitration by, against or affecting any Loan Party or any of its Subsidiaries or any property of any Loan Party or any of its Subsidiaries that has not been disclosed to Agent by Borrower in writing, and there shall have occurred no development in any such action, charge, claim, demand, suit, proceeding, petition, governmental investigation or arbitration that, in the opinion of Agent, would reasonably be expected to have a Material Adverse Effect.

(I) Initial Funding Date. Solely in respect of the initial funding of Loans, Borrower's tax assumptions, capital, organization, ownership and legal structure must be satisfactory to Agent and not impair the ability of the Agent to enforce any claims against the Collateral; all Collateral must be freely pledgeable as collateral security for the Loans subject to Borrower's reasonable commercial efforts to obtain, where applicable, landlord consents and warehouseman waivers in accordance with procedures to be determined by mutual agreement of Agent and Borrower.

REPORTING RIDER

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

(A) Monthly Financials. As soon as available and in any event within forty-five (45) days after the end of each month, Borrower will deliver (1) the consolidated and consolidating balance sheet of Borrower and its Subsidiaries as at the end of such month and the related consolidated and consolidating statements of income, stockholders' equity and cash flow for such month and for the period from the beginning of the then current Fiscal Year to the end of such month, and (2) a schedule of the outstanding Indebtedness for borrowed money of Borrower and its Subsidiaries describing in reasonable detail each such debt issue or loan outstanding and the principal amount and amount of accrued and unpaid interest with respect to each such debt issue or loan.

(B) Year-End Financials. As soon as available and in any event within ninety (90) days after the end of each Fiscal Year, Borrower will deliver: (1) the consolidated balance sheet of Borrower and its Subsidiaries as at the end of such year and the related consolidated statements of income, stockholders' equity and cash flow for such Fiscal Year; (2) a schedule of the outstanding Indebtedness of Borrower and its Subsidiaries describing in reasonable detail each such debt issue or loan outstanding and the principal amount and amount of accrued and unpaid interest with respect to each such debt issue or loan; and (3) a report with respect to the financial statements from Borrower's Accountants, which report shall be unqualified as to going concern and scope of audit of Borrower and its Subsidiaries and shall state that (a) such consolidated financial statements present fairly the consolidated financial position of Borrower and its Subsidiaries as at the dates indicated and the results of their operations and cash flow for the periods indicated in conformity with GAAP applied on a basis consistent with prior years and (b) that the examination by Borrower's Accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards; and (4) copies of the consolidating financial statements of Borrower and its Subsidiaries, including (a) consolidating balance sheets of Borrower and its Subsidiaries as at the end of such Fiscal Year showing intercompany eliminations and (b) related consolidating statements of income of Borrower and its Subsidiaries showing intercompany eliminations.

(C) Accountants' Certification and Reports. Together with each delivery of consolidated financial statements of Borrower and its Subsidiaries pursuant to paragraph (C) above, Borrower will deliver a written statement by Borrower's Accountants (1) stating that the examination has included a review of the terms of this Agreement as same relate to accounting matters and (2) stating whether, in connection with the examination, any condition or event that constitutes a Default or an Event of Default has come to their attention and, if such a condition or event has come to their attention, specifying the nature and period of existence thereof. Promptly upon receipt thereof, Borrower will deliver copies of all significant reports submitted to Borrower by Borrower's Accountants in connection with each annual, interim or special audit of the financial statements of Borrower made by Borrower's Accountants, including the comment letter submitted by Borrower's Accountants to management in connection with their annual audit.

(D) Compliance Certificate. Together with the delivery of each set of financial statements referenced in paragraphs (A), (B) and (C) above, Borrower will deliver a Compliance Certificate, together with copies of the calculations and work-up employed to determine Borrower's compliance or noncompliance with the financial covenants set forth in the Financial Covenants Rider.

(E) Borrowing Base Certificates, Registers and Journals. On the first Business Day of each week, Borrower shall deliver to Agent: (1) a Borrowing Base Certificate in the form of Exhibit A updated to reflect the most recent sales and collections of Borrower and an assignment schedule of all Accounts created by Borrower; (2) an invoice register or sales journal describing all sales of Borrower, in form and substance satisfactory to Agent, and, if Agent so requests, copies of invoices evidencing such sales and proofs of delivery relating thereto; (3) a cash receipts journal; and (4) an adjustment journal, setting forth all adjustments to Borrower's accounts receivable.

(F) Reconciliation Reports, Inventory Reports and Listings and Agings. On the Closing Date and on the first Business Day of each week thereafter, Borrower will deliver to Agent: (1) an aged trial balance of all then existing Accounts; and (2) an Inventory Report duly executed by an officer of Borrower and substantially in the form of Exhibit C as of the last day of the previous week. On the first Business Day of each week and five (5) days after the last day of each month, and from time to time upon the request of Agent, Borrower will deliver to Agent: (1) a reconciliation report duly executed by the chief executive officer or chief financial officer of Borrower and substantially in the form of Exhibit D as at the last day of such period; (2) an aged trial balance of all then existing accounts payable; and (3) a detailed inventory listing and cover summary report. All such reports shall be in form and substance satisfactory to Agent.

(G) Management Report. Together with each delivery of financial statements of Borrower and its Subsidiaries pursuant to paragraphs (A) and (B) above, Borrower will deliver a management report (to the extent provided to

Borrower): (1) describing the operations and financial condition of Borrower and its Subsidiaries for the month then ended and the portion of the current Fiscal Year then elapsed; (2) setting forth in comparative form the corresponding figures for the corresponding periods of the previous Fiscal Year and the corresponding figures from the most recent Projections for the current Fiscal Year delivered to Lenders pursuant to paragraph (L) below; and (3) discussing the reasons for any significant variations. The information above shall be presented in reasonable detail and shall be certified by the chief financial officer of Borrower to the effect that such information fairly presents the results of operations and financial condition of Borrower and its Subsidiaries as at the dates and for the periods indicated.

(H) Appraisals. From time to time, upon the request of Agent, Borrower will obtain and deliver to Agent, at Borrower's expense, appraisal reports in form and substance and from appraisers satisfactory to Agent, stating the then current fair market and orderly liquidation values of all or any portion of the Collateral; provided, however, so long as no Default or Event of Default is continuing, Agent shall not request an appraisal as to any particular category of Collateral to be performed more than once every Loan Year at Borrower's expense.

(I) Government Notices. Borrower will deliver to Agent promptly after receipt copies of all notices, requests, subpoenas, inquiries or other writings received from any governmental agency concerning any Employee Benefit Plan, the violation or alleged violation of any Environmental Laws, the storage, use or disposal of any Hazardous Material, the violation or alleged violation of the Fair Labor Standards Act or Borrower's payment or non-payment of any taxes including any tax audit.

(J) Events of Default, etc. Promptly (but in any event not later than three (3) Business Days) upon any officer of Borrower obtaining knowledge of any of the following events or conditions, Borrower shall deliver a certificate of Borrower's chief executive officer specifying the nature and period of existence of such condition or event and what action Borrower has taken, is taking and proposes to take with respect thereto: (1) any condition or event that constitutes an Event of Default or Default; (2) any notice of default that any Person has given to Borrower or any of its Subsidiaries or any other action taken with respect to a claimed default; or (3) any Material Adverse Effect.

(K) Projections. As soon as available and in any event not later than each April 30 and October 31, Borrower will deliver consolidated and consolidating Projections of Borrower and its Subsidiaries for the forthcoming twelve (12) months on a month to month basis.

(L) Other Information. With reasonable promptness, Borrower will deliver such other information and data as Agent may reasonably request from time to time.

FINANCIAL COVENANTS RIDER

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

(A) Tangible Net Worth. Prior to June 30, 1998, Borrower shall maintain Tangible Net Worth of at least \$13,000,000. On or after June 30, 1998, Borrower shall maintain Tangible Net Worth of at least \$20,000,000 as at the end of each Fiscal Month.

(B) Working Capital. Prior to June 30, 1998, Borrower shall maintain Working Capital as at the end of each Fiscal Month of at least \$10,000,000. On and after June 30, 1998, Borrower shall maintain Working Capital of at least \$14,000,000 as at the end of each Fiscal Month.

(C) Ratio of Indebtedness to Tangible Net Worth. As at the end of

each Fiscal Month, the ratio of (a) Borrower's Indebtedness, on a consolidated basis, to (b) Borrower's Tangible Net Worth shall not be greater than 4.0:1.0.

EXHIBIT 10.10(a)

TERM LOAN A NOTE

\$2,775,000

SEPTEMBER 4, 1998

FOR VALUE RECEIVED, the undersigned, SKECHERS U.S.A., INC., a California corporation ("Company"), hereby unconditionally promises to pay to the order of HELLER FINANCIAL, INC., a Delaware corporation ("Agent") as Agent for the Lenders under that certain Amended and Restated Loan and Security Agreement dated September 4, 1998 (the "Loan Agreement"), at Agent's office located at 505 North Brand Boulevard, Glendale, California 91203, or at such other place as the holder of this Note may from time to time designate in writing, in lawful money of the United States of America and in immediately available funds, the principal sum of TWO MILLION SEVEN HUNDRED SEVENTY-FIVE THOUSAND AND NO/100 DOLLARS (\$2,775,000.00), payable in accordance with the terms of the Loan Agreement.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Loan Agreement.

This Note is the Term Loan A Note referred to in the Loan Agreement and is issued to evidence Term Loan A made to Company under the Loan Agreement. This Note is entitled to the benefits of the Loan Agreement to which reference is hereby made for a more complete statement of the terms, conditions and covenants under which this Note is made and is to be repaid, including, but not limited to, those related to acceleration of the indebtedness represented hereby upon the occurrence of a default or event of default or upon the termination of the Loan Agreement.

Company promises to pay interest on the outstanding unpaid principal amount hereof from the date hereof until payment in full hereof at a rate per annum equal to the Base Rate plus one quarter of one percent (0.25%). Interest shall be computed on the daily principal balance on the basis of a 360-day year for the actual number of days elapsed in the period during which it accrues and shall be payable by Company or charged to Company's account at the end of each month. Any publicly announced decrease or increase in the Base Rate shall result in an adjustment to the interest rate on the next business day.

In no event shall the total interest received by Agent on the principal amount of Company's obligations under this Note pursuant to the terms hereof exceed the maximum rate permitted by applicable law (the "Maximum Rate") and in the event excess interest ("Excess Interest") is determined by a court of competent jurisdiction to have been paid, (a) at Agent's option, such Excess Interest shall be applied as a credit against the outstanding principal balance of such obligations or accrued but unpaid interest (not to exceed the maximum amount permitted by law), refunded to Company or any combination thereof, (b) the interest rate shall be automatically reduced to the Maximum Rate, and Company shall not have any action against Agent for any damages arising out of the payment or collection of Excess Interest.

Notwithstanding the foregoing, if for any period of time interest on any of Company's obligations under this Note is calculated at the Maximum Rate rather than the applicable rate under this Note, and thereafter such applicable rate becomes less than the Maximum Rate, the rate of interest payable on such obligations shall remain at the Maximum Rate until Agent shall have received the amount of interest which Agent would have received during such period on such obligations had the rate of interest not been limited to the Maximum Rate during such period.

To secure the payment of the principal and interest of this Note and all renewals and extensions of the same or any part thereof and any and all other obligations now or hereafter owing or to become owing from Company to Agent, howsoever created, arising, evidenced or acquired by Agent, whether direct or contingent,

various agreements by and between Company and Agent, all as amended from time to time, including, without limitation, the Loan Agreement (collectively called the "Agreements") to which reference is made for a statement of the nature and extent of the security and protection afforded, the rights of Agent and the rights and obligations of Company, together with all other and sundry grants and pledges of security heretofore and hereafter given (collectively called the "Collateral"), with full power and authority to Agent to transfer, assign, pledge or replace the same in whole or in part. In case of exchange of, or substitution for, or addition to the Collateral, the provisions hereof shall extend to such exchanged, substituted, or additional Collateral. Upon payment of this Note, Agent may nevertheless retain the Collateral hereby pledged to secure the payment of other obligations of Company to Agent, if any, for which the same is pledged. Agent is expressly released from all obligation or liability: (a) to protect, collect, demand payment of, protest or enforce the Collateral; (b) to take any action whatsoever in regard to the Collateral or any part thereof; or (c) for any loss of or depreciation in the value of the Collateral.

Company hereby waives demand, presentment, protest, notice of demand, dishonor, presentment, protest, nonpayment and all other notices in connection with this Note. Subject to the Loan Agreement, Company also waives all rights to notice and hearing of any kind upon the occurrence of a default or an event of default prior to the exercise by Agent of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this Note is collected by or through an attorney-at-law, all costs of collection, including reasonable attorneys' fees, shall be payable by the undersigned.

THIS NOTE SHALL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO DETERMINED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO CONFLICTS OF LAW PROVISIONS) AND DECISIONS OF THE STATE OF CALIFORNIA. Whenever possible each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note. Whenever in this Note reference is made to Agent or Company, such reference shall be deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note shall be binding upon and shall inure to the benefit of such successors and assigns. Company's successors and assigns shall include, without limitation, a receiver, trustee or debtor in possession of or for Company.

WITNESS the signature of the undersigned, as of the date first above written.

SKECHERS U.S.A., INC.

By: /s/ DAVID WEINBERG

David Weinberg

Title: Chief Financial Officer

EXHIBIT 10.10(b)

REVOLVING NOTE

FOR VALUE RECEIVED, the undersigned, SKECHERS U.S.A., INC., a California corporation ("Company"), hereby unconditionally promises to pay to the order of HELLER FINANCIAL, INC., a Delaware corporation ("Agent") as Agent for the Lenders under that certain Amended and Restated Loan and Security Agreement dated September 4, 1998 (the "Loan Agreement"), at Agent's office located at 505 North Brand Boulevard, Glendale, California 91203, or at such other place as the holder of this Revolving Note may from time to time designate in writing, in lawful money of the United States of America and in immediately available funds, the principal amount of all "Revolving Loans" under the Loan Agreement, payable in accordance with the terms of the Loan Agreement.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Loan Agreement.

This Note is the Revolving Note referred to in the Loan Agreement and is issued to evidence Revolving Loans made to Company under the Loan Agreement. This Revolving Note is entitled to the benefits of the Loan Agreement to which reference is hereby made for a more complete statement of the terms, conditions and covenants under which this Revolving Note is made and is to be repaid, including, but not limited to, those related to acceleration of the indebtedness represented hereby upon the occurrence of a default or event of default or upon the termination of the Loan Agreement.

Company promises to pay interest on the outstanding unpaid principal amount hereof from the date hereof until payment in full hereof at a rate per annum equal to the Base Rate plus one quarter of one percent (0.25%). Interest shall be computed on the daily principal balance on the basis of a 360-day year for the actual number of days elapsed in the period during which it accrues and shall be payable by Company or charged to Company's account at the end of each month. Any publicly announced decrease or increase in the Base Rate shall result in an adjustment to the interest rate on the next business day.

In no event shall the total interest received by Agent on the principal amount of Company's obligations under this Revolving Note pursuant to the terms hereof exceed the maximum rate permitted by applicable law (the "Maximum Rate") and in the event excess interest ("Excess Interest") is determined by a court of competent jurisdiction to have been paid, (a) at Agent's option, such Excess Interest shall be applied as a credit against the outstanding principal balance of such obligations or accrued but unpaid interest (not to exceed the maximum amount permitted by law), refunded to Company or any combination thereof, (b) the interest rate shall be automatically reduced to the Maximum Rate, and Company shall not have any action against Agent for any damages arising out of the payment or collection of Excess Interest.

Notwithstanding the foregoing, if for any period of time interest on any of Company's obligations under this Revolving Note is calculated at the Maximum Rate rather than the applicable rate under this Revolving Note, and thereafter such applicable rate becomes less than the Maximum Rate, the rate of interest payable on such obligations shall remain at the Maximum Rate until Agent shall have received the amount of interest which Agent would have received during such period on such obligations had the rate of interest not been limited to the Maximum Rate during such period.

To secure the payment of the principal and interest of this Revolving Note and all renewals and extensions of the same or any part thereof and any and all other obligations now or hereafter owing or to become owing from Company to Agent, howsoever created, arising, evidenced or acquired by Agent, whether direct or contingent, Company has granted and given to Agent a general and continuing lien and security interest in certain of Company's assets as listed and described in the various agreements by and between Company and Agent, all as amended from time to time, including, without limitation, the Loan Agreement (collectively called the "Agreements") to which reference is made for a statement of the nature and extent of the security and protection afforded, the rights of Agent and the rights and

obligations of Company, together with all other and sundry grants and pledges of security heretofore and hereafter given (collectively called the "Collateral"), with full power and authority to Agent to transfer, assign, pledge or replace the same in whole or in part. In case of exchange of, or substitution for, or addition to the Collateral, the provisions hereof shall extend to such exchanged, substituted, or additional Collateral. Upon payment of this Revolving Note, Agent may nevertheless retain the Collateral hereby pledged to secure the payment of other obligations of Company to Agent, if any, for which the same is pledged. Agent is expressly released from all obligation or liability: (a) to protect, collect, demand payment of, protest or enforce the Collateral; (b) to take any action whatsoever in regard to the Collateral or any part thereof; or (c) for any loss of or depreciation in the value of the Collateral.

Company hereby waives demand, presentment, protest, notice of demand, dishonor, presentment, protest, nonpayment and all other notices in connection with this Revolving Note. Subject to the Loan Agreement, Company also waives all rights to notice and hearing of any kind upon the occurrence of a default or an event of default prior to the exercise by Agent of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this Revolving Note is collected by or through an attorney-at-law, all costs of collection, including reasonable attorneys' fees, shall be payable by the undersigned.

THIS REVOLVING NOTE SHALL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO DETERMINED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO CONFLICTS OF LAW PROVISIONS) AND DECISIONS OF THE STATE OF CALIFORNIA. Whenever possible each provision of this Revolving Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Revolving Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Revolving Note. Whenever in this Revolving Note reference is made to Agent or Company, such reference shall be deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Revolving Note shall be binding upon and shall inure to the benefit of such successors and assigns. Company's successors and assigns shall include, without limitation, a receiver, trustee or debtor in possession of or for Company.

WITNESS the signature of the undersigned, as of the date first above written.

SKECHERS U.S.A., INC.

By: /s/ David Weinberg

Title: CFO

EXHIBIT 10.10(c)

FIRST AMENDMENT TO AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

This First Amendment of Amended and Restated Loan and Security Agreement (this "Amendment") is made as of September 11, 1998 by and between SKECHERS U.S.A., INC., a California corporation ("Borrower") and HELLER FINANCIAL, INC., a Delaware corporation, ("Agent") as Agent for the Lenders under that certain First Amended and Restated Loan and Security Agreement dated September 4, 1998 (the "Loan and Security Agreement"). All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Loan and Security Agreement.

Whereas, Borrower and Agent entered into the Loan and Security Agreement; and

Whereas, Borrower and Agent desire to amend certain terms of the Loan and Security Agreement as set forth below;

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

SECTION 1. AMENDMENT

The first paragraph of subsection 2.1(B) and the entirety of subsection 2.1(B)(1) are deleted in their entirety and are replaced with the following:

"(B) Revolving Loan: Each Lender, severally, agrees to lend to Borrower from time to time its Pro Rata Share of each Revolving Advance. The aggregate amount of all Revolving Loan Commitments shall not exceed at any time \$120,000,000 as reduced by sub-section 2.4(B). Amounts borrowed under this subsection 2.1(B) may be repaid and reborrowed at any time prior to the earlier of (i) the termination of the Revolving Loan Commitment pursuant to subsection 8.3 or (ii) the Termination Date; provided, however, that Borrower shall reduce the Revolving Loan to an amount not greater than the Cleanup Amount for at least one Business Day each consecutive twenty-one (21) day period. Except as otherwise provided herein, no Lender shall have any obligation to make a Revolving Advance to the extent such Revolving Advance would cause the Revolving Loan (after giving effect to any immediate application of the proceeds thereof) to exceed the Maximum Revolving Loan Amount.

(1) 'Maximum Revolving Loan Amount' means, as of any date of determination, the lesser of (a) the Revolving Loan Commitment(s) of all Lenders less (i) the Letter of Credit Reserve, (ii) the unpaid amount of Term Loan A, and (iii) unpaid amount of Term Loan B and (b) the Borrowing Base less (i) the Letter of Credit Reserve (ii) the unpaid amount of Term Loan A and Term Loan B plus (iii) the amount of any outstanding Discretionary Advances; and"

SECTION 2. RATIFICATION OF AGREEMENT

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

SECTION 3. COUNTERPARTS; EFFECTIVENESS

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

EXHIBIT 10.10(d)

SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Second Amendment to that certain Amended and Restated Loan and Security Agreement ("Amendment") is made and entered into as of December 23, 1998 by and between Skechers U.S.A., Inc. ("Borrower") and Heller Financial, Inc., as Agent and as Lender ("Agent").

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

WHEREAS, Borrower has informed Agent that it intends to repay Term Loan B in full and requests that Agent cancel the Guaranty and release the cash collateral pledged to Lender by Guarantor pursuant to the Cash Collateral Pledge Agreement; and

WHEREAS, Borrower has further requested that Agent consent to Borrower's incurrence of indebtedness in the amount of \$13,250,000 from Guarantor, which indebtedness shall be evidenced by a subordinated promissory note in the amount of \$10,000,000 which indebtedness shall be subordinated to Agent pursuant to the terms of a subordination agreement and a promissory note in the amount of \$3,250,000 (the "Greenberg Note") which note shall not be subordinated; and

WHEREAS, Agent and Lenders have agreed to cancel the Guaranty and release the cash collateral pledged by Guarantor, and Agent and Lenders have further agreed to the incurrence by Borrower of \$13,250,000 of indebtedness; and

WHEREAS, the parties desire to amend the Agreement as hereinafter set forth;

NOW THEREFORE, in consideration of the mutual conditions and agreements set forth in the Agreement and this Amendment, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. DEFINITIONS. Capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such term in the Agreement.

2. AMENDMENTS. Subject to the conditions set forth the below, the Agreement is amended as follows:

(a) The definition of "Tangible Net Worth" is amended by deleting the definition of "Tangible Net Worth" in its entirety and inserting the following in lieu thereof:

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

(b) The definition of "Loan Documents" is amended by deleting the definition of "Loan Documents" in its entirety and inserting the following in lieu thereof:

"Loan Documents" means this Agreement, the Subsidiary Guaranty, the Subordination Agreement and all other documents, instruments and agreements executed by or on behalf of Borrower, Borrower's Subsidiaries or any Subsidiary Guaranty or any Guarantor and delivered concurrently herewith or at any time hereafter to or for Agent or any Lender in connection with the Loans, any Agent Letter of Credit, and any other transaction contemplated by this Agreement, all as amended, restated, supplemented or modified

from time to time.

(c) Section 11.1 is amended by inserting the following definitions of "Subordination Agreement," "Greenberg Note" and "Subordinated Debt" in the proper alphabetical order in Section 11.1 of the Agreement:

"Greenberg Note" means that certain promissory note evidencing the obligations of Borrower to the Greenberg Family Trust in the original principal amount of \$3,250,000 dated December 22, 1998.

"Subordination Agreement" means that certain subordination agreement dated as of December 23, 1998 by and among, Agent, Borrower and Robert Y. Greenberg and Susan M. Greenberg, Trustees of the Greenberg Family Trust dated May 3, 1988, as amended from time to time.

"Subordinated Debt" means the indebtedness incurred by Borrower pursuant to that certain subordinated promissory note dated December 22, 1998 in the original principal amount of \$10,000,000 in favor of Robert Y. Greenberg and Susan M. Greenberg, Trustees of the Greenberg Family Trust dated May 3, 1988 as amended.

(d) The first sentence of subsection 7.1 is amended by deleting the same in its entirety and inserting the following in lieu thereof:

"Directly or indirectly create, incur, assume, guaranty, or otherwise become or remain directly or indirectly liable, on a fixed or contingent basis, with respect to any Indebtedness except: (a) the Obligations; (b) Indebtedness under Capital Leases not to exceed \$12,000,000 outstanding at any time in the aggregate; (c) Indebtedness existing on the Closing Date and identified on Schedule 7.1; (d) the Subordinated Debt; and (e) the indebtedness outstanding under the Greenberg Note.

(e) Subsection 7.5(c) is amended by deleting the same in its entirety and inserting the following in lieu thereof:

"Borrower may make distributions and or dividends to its shareholders provided that (i) Borrower shall have first given Agent notice of its intention to make such distribution or dividend and (ii) Borrower shall be in compliance with the terms and conditions of the Loan Documents both prior to making such distribution or dividend and after giving effect to such distribution or dividend (including Borrower's compliance with the financial covenants calculated through the date of such payment) and Borrower shall have delivered a Compliance Certificate to Agent demonstrating such compliance, not later than two (2) Business Days before making such distribution or dividend. Borrower may make principle payments on the Subordinated Debt in accordance with the Subordination Agreement

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provided that (i) Borrower shall have paid in full the Greenberg Note; (ii) Borrower shall have first given Agent notice of its intention to make such payment and (iii) Borrower shall be in compliance with the terms and conditions of the Loan Documents both prior to making such payment and after giving effect to such payment (including Borrower's compliance with the financial covenants calculated through the date of such payment) and Borrower shall have delivered a Compliance Certificate to Agent demonstrating such compliance, not later than two (2) Business Days before making such payment."

3. CONDITIONS. The effectiveness of this Amendment is subject to the following conditions precedent (unless specifically waived in writing by Agent):

(a) There shall have occurred no material adverse change in the business, operations, financial condition, profits or prospects of Borrower, or in the Collateral;

(b) Borrower shall have executed and delivered such other documents and instruments as Agent may require;

(c) All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Agent and its legal counsel;

(d) No Default or Event of Default shall have occurred and be continuing.

(e) Borrower shall have repaid in full Term Loan B.

4. CORPORATE ACTION. The execution, delivery, and performance of this Amendment has been duly authorized by all requisite corporate action on the part of Borrower and this Amendment has been duly executed and delivered by Borrower.

5. SUCCESSORS AND ASSIGNS. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

6. SEVERABILITY. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

7. COUNTERPARTS. This Amendment may be executed in one or more counterparts, each of which shall constitute an original, but all of which taken together shall be one and the same instrument.

8. RATIFICATION. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions of the Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement are ratified and confirmed and shall continue in full force and effect.

9. REFERENCES. Any reference to the Agreement contained in any Loan Document, or any other notice, request, certificate, or other document executed concurrently with or after the execution and delivery of this Amendment shall be deemed to include this Amendment, unless the context shall otherwise require.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed under seal and delivered by their respective duly authorized officers on the date first written above.

HELLER FINANCIAL, INC., as Agent
and as Lender

By: /s/ NORA BOSE

Name: Nora Bose

Title: AVP

SKECHERS U.S.A., INC.

ATTEST:

/s/ PHILIP G. PACCIONE

Secretary

By: /s/ DAVID WEINBERG

Name: David Weinberg

Title: CfO

CONSENT AND REAFFIRMATION

The undersigned Subsidiary Guarantor of the obligations of Borrower at any time owing hereby (i) acknowledges receipt of a copy of the foregoing Second Amendment to Loan and Security Agreement; (ii) consents to Borrower's execution and delivery thereof; (iii) agrees to be bound thereby; and (iv) affirms that nothing contained therein shall modify in any respect whatsoever its guaranty of the obligations and reaffirms that such guaranty is and shall remain in full force and effect. Although Guarantor has been informed of the matters set forth herein and has acknowledged and agreed to same, Guarantor understands that Agent has no obligation to inform the Guarantor of such matters in the future or to seek Guarantor's acknowledgment or agreement to future amendments or waivers, and nothing herein shall create such a duty.

IN WITNESS WHEREOF, the undersigned Guarantor has executed this Consent and Reaffirmation on and as of the date of such Second Amendment to the Loan and Security Agreement.

SKECHERS BY MAIL, INC.,
a Delaware corporation

By: /s/ DAVID WEINBERG

Name: David Weinberg

Title: CFO

[CB COMMERCIAL LETTERHEAD]

EXHIBIT 10.11

ARTICLE ONE: BASIC TERMS

This Article One contains the Basic Terms of this Lease between the Landlord and Tenant named below. Other Articles, Sections and Paragraphs of the Lease referred to in this Article One explain and define the Basic Terms and are to be read in conjunction with the Basic Terms.

Section 1.01. DATE OF LEASE: April 15, 1998

Section 1.02. LANDLORD (INCLUDE LEGAL ENTITY): Holt/Hawthorn, a California limited partnership and Victory Partners, a California limited partnership, as tenants in common

Address of Landlord: c/o The Holt Company, 462 Stevens Avenue, Suite 105, Solana Beach, CA 92075

Section 1.03. TENANT (INCLUDE LEGAL ENTITY): Skechers USA, Inc., a California corporation.

Address of Tenant: 228 Manhattan Beach Boulevard, Suite 200, Manhattan, CA

Section 1.04. PROPERTY: (include street address, approximate square footage and description) 228 Manhattan Beach Boulevard, Manhattan Beach, CA

Approximately 28,000 square foot freestanding building plus underground parking area.

Section 1.05. LEASE TERM: 10 years -0- months beginning on March 1, 1998 or such other date as is specified in this Lease, and ending on February 29, 2008

Section 1.06. PERMITTED USES: (See Article Five) (See Addendum Section 17.)

Section 1.07. TENANT'S GUARANTOR: (If none, so state) None

Section 1.08. BROKERS: (See Article Fourteen)(If none, so state)
Landlord's Broker: None
Tenant's Broker: None

Section 1.09. COMMISSION PAYABLE TO LANDLORD'S BROKER: (See Article Fourteen) \$ None

Section 1.10. INITIAL SECURITY DEPOSIT: (See Section 3.03) \$ (See Addendum Section 25)

Section 1.11. VEHICLE PARKING SPACES ALLOCATED TO TENANT: (See Addendum Section 18)

Section 1.12. RENT AND OTHER CHARGES PAYABLE BY TENANT: _____

(a) BASE RENT: Fifty two thousand six hundred fifty seven Dollars (\$52,657.00) per month for the first twelve months, as provided in Section 3.01, and shall be increased on the first day of the thirteenth month and after the Commencement Date, (i) as provided in Section 3.02, then annually

(b) OTHER PERIODIC PAYMENTS: (i) Real Property Taxes above the "Base Real Property Taxes" (See Section 4.02); (ii) Utilities (See Section 4.03); (iii) Increased Insurance Premiums above "Base Premiums" (See Section 4.04); (iv) Impounds for Tenant's Share of Insurance Premiums and Property Taxes (See Section 4.07); (v) Maintenance, Repairs and Alterations (See Article Six).

Section 1.13. COSTS AND CHARGES PAYABLE BY LANDLORD: (a) Base Real Property Taxes (See Section 4.02); (b) Base Insurance Premiums (See Section 4.04(c)); (c) Maintenance and Repair (See Article Six).

Section 1.14. LANDLORD'S SHARE OF PROFIT ON ASSIGNMENT OR SUBLEASE: (See Section 9.05) None percent (-0-%) of the Profit (the "Landlord's Share").

Section 1.15. RIDERS: The following Riders are attached to and made a part of this Lease: (If none, so state) Addendum Sections 16 through 25
Exhibit A - Subordination, Non-Disturbance and Attornment Agreement - Sample
Exhibit B - Tenant Estoppel Certificate - Sample Addendum Sections 26 through 40

ARTICLE TWO: LEASE TERM

Section 2.01. Lease of Property For Lease Term, Landlord leases the Property to Tenant and Tenant leases the property from Landlord for the Lease Term. The Lease Term is for the period stated in Section 1.05 above and shall begin and end on the dates specified in Section 1.05 above, unless the beginning or end of the Lease Term is changed under any provision of this Lease. The Commencement Date shall be the date specified in Section 1.05 above for the beginning of the Lease Term, unless advanced or delayed under any provision of this Lease.

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Section 2.04. HOLDING OVER. Tenant shall vacate the Property upon the expiration or earlier termination of this Lease. Tenant shall reimburse Landlord for and indemnify Landlord against all damages which Landlord incurs from Tenant's delay in vacating the Property. If Tenant does not vacate the Property upon the expiration or earlier termination of the Lease and Landlord thereafter accepts rent from Tenant, Tenant's occupancy of the Property shall be a "month-to-month" tenancy, subject to all of the terms of this Lease applicable to a month-to-month tenancy, except that the Base Rent then in effect shall be increased by twenty-five percent (25%).

ARTICLE THREE: BASE RENT

Section 3.01. TIME AND MANNER OF PAYMENT. Upon execution of this Lease, Tenant shall pay Landlord the Base Rent in the amount stated in Paragraph 1.12(a) above for the first month of the Lease Term. On the first day of the second month of the Lease Term and each month thereafter, Tenant shall pay Landlord the Base Rent, in advance, without offset, deduction or prior demand. The Base Rent shall be payable at Landlord's address or at such other place as Landlord may designate in writing.

Section 3.02. COST OF LIVING INCREASES. The Base Rent shall be increased on each date (the "Rental Adjustment Date") stated in Paragraph 1.12(a) above in accordance with the increase in the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (all items for the geographical Statistical Area in which the Property is located on the basis of 1982-1984 = 100) (the "Index") as follows:

(a) The Base Rent (the "Comparison Base Rent") in effect immediately before each Rental Adjustment Date shall be increased by the percentage that the Index has increased from the date (the "Comparison Date") on which payment of the Comparison Base Rent began through the month in which the applicable Rental Adjustment Date occurs. The Base Rent shall not be reduced by reason of such computation. Landlord shall notify Tenant of each increase by a written statement which shall include the Index for the applicable Comparison Date, the Index for the applicable Rental Adjustable Date, the percentage increase between those two Indices, and the new Base Rent. Any increase in the Base Rent provided for in this Section 3.02 shall be subject to a minimum increase of 2% and a maximum increase of 4%.

(b) Tenant shall pay the new Base Rent from the applicable Rental Adjustment Date until the next Rental Adjustment Date. Landlord's notice may be given after the applicable Rental Adjustment Date of the increase, and Tenant shall pay Landlord the accrued rental adjustment for the months elapsed between the effective date of the increase and Landlord's notice of such increase within ten (10) days after Landlord's notice. If the format or components of the Index are materially changed after the Commencement Date, Landlord shall substitute an index which is published by the Bureau of Labor Statistics or similar agency and which is most nearly equivalent to the Index in effect on the Commencement Date. The substitute index shall be used to calculate the increase in the Base Rent unless Tenant objects to such index in writing within fifteen (15) days after receipt of Landlord's notice. If Tenant objects, Landlord and Tenant shall

submit the selection of the substitute index for binding arbitration in accordance with the rules and regulations of the American Arbitration Association at its office closest to the Property. The costs of arbitration shall be borne equally by Landlord and Tenant.

Section 3.03. SECURITY DEPOSIT: INCREASES.

(a) Upon the execution of this Lease, Tenant shall deposit with Landlord a cash Security Deposit in the amount set forth in Section 1.10 above. Landlord may apply all or part of the Security Deposit to any unpaid rent or other charges due from Tenant or to cure any other defaults of Tenant. If Landlord uses any part of the Security Deposit, Tenant shall restore the Security Deposit to its full amount within ten (10) days after Landlord's written request. Tenant's failure to do so shall be a material default under this Lease. No interest shall be paid on the Security Deposit. Landlord shall not be required to keep the Security Deposit separate from its other accounts and no trust relationship is created with respect to the Security Deposit.

(b) Each Time the Base Rent is increased, Tenant shall deposit additional funds with Landlord sufficient to increase the Security Deposit to an amount which bears the same relationship to the adjusted Base Rent as the initial Security Deposit bore to the initial Base Rent.

Section 3.04. TERMINATION: ADVANCE PAYMENTS. Upon termination of this Lease under Article Seven (Damage or Destruction), Article Eight (Condemnation) or any other termination not resulting from Tenant's default, and after Tenant has vacated the Property in the manner required by this Lease, Landlord shall refund or credit to Tenant (or Tenant's successor) the unused portion of the Security Deposit, any advance rent or other advance payments made by Tenant to Landlord, and any amounts paid for real property taxes and other reserves which apply to any time periods after termination of the Lease.

ARTICLE FOUR: OTHER CHARGES PAYABLE BY TENANT

Section 4.01. ADDITIONAL RENT. All charges payable by Tenant other than Base Rent are called Additional Rent. Unless this Lease provides otherwise, Tenant shall pay all Additional Rent then due with the next monthly installment of Base Rent. The term rent shall mean Base Rent and Additional Rent.

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Section 4.02. Property Taxes.

(a) REAL PROPERTY TAXES. Landlord shall pay the "Base Real Property Taxes" on the Property during the Lease Term. Base Real Property Taxes are real property taxes applicable to the Property as shown on the tax bill for the most recent tax fiscal year ending prior to the Commencement Date. Tenant shall pay Landlord the amount, if any, by which the real property taxes during the Lease Term exceed the Base Real Property Taxes. Subject to Paragraph 4.02(c), Tenant shall make such payments within fifteen (15) days after receipt of Landlord's statement showing the amount and computation of such increase. Landlord shall reimburse Tenant for any real property taxes paid by Tenant covering any period of time prior to or after the Lease Term.

(b) DEFINITION OF "REAL PROPERTY TAX." "Real property tax" means: (i) any fee, license fee, license tax, business license fee, commercial rental tax, levy, charge, assessment, penalty or tax imposed by any taxing authority against the Property; (ii) any tax on the Landlord's right to receive, or the receipt of, rent or income from the Property or against Landlord's business of leasing the Property; (iii) any tax or charge for fire protection, streets, sidewalks, road maintenance, refuse or other services provided to the Property by any governmental agency; (iv) any tax imposed upon this transaction or based upon a re-assessment of the Property due to a change of ownership, as defined by applicable law, or other transfer of all or part of Landlord's interest in the Property; and (v) any charge or fee replacing any tax previously included within the definition of real property tax. "Real property tax" does not, however, include Landlord's federal or state income, franchise, inheritance or estate taxes.

(c) JOINT ASSESSMENT. If the Property is not separately assessed, Landlord shall reasonably determine Tenant's share of the real property tax payable by Tenant under Paragraph 4.02(a) from the assessor's worksheets or other reasonably available information. Tenant shall pay such share to Landlord within fifteen (15) days after receipt of Landlord's written statement.

(d) PERSONAL PROPERTY TAXES.

(i) Tenant shall pay all taxes charged against trade fixtures, furnishings, equipment or any other personal property belonging to Tenant. Tenant shall try to have personal property taxed separately from the Property.

(ii) If any of Tenant's personal property is taxed with the Property, Tenant shall pay Landlord the taxes for the personal property within fifteen (15) days after Tenant receives a written statement from Landlord for such personal property taxes.

Section 4.03. UTILITIES. Tenant shall pay, directly to the appropriate supplier the cost of all natural gas, heat, light, power, sewer service, telephone, water, refuse disposal and other utilities and services supplied to the Property. However, if any services or utilities are jointly metered with other property, Landlord shall make a reasonable determination of Tenant's proportionate share of the cost of such utilities and services and Tenant shall pay such share to Landlord within fifteen (15) days after receipt of Landlord's written statement.

Section 4.04. INSURANCE POLICIES.

(a) LIABILITY INSURANCE. During the Lease Term, Tenant shall maintain a policy of commercial general liability insurance (sometimes known as broad form comprehensive general liability insurance) insuring Tenant against liability for bodily injury, property damage (including loss of use of property) and personal injury arising out of the operation, use or occupancy of the property. Tenant shall name Landlord as an additional insured under such policy. The initial amount of such insurance shall be One Million Dollars (\$1,000,000) per occurrence and shall be subject to periodic increase based upon inflation, increased liability awards, recommendation of Landlord's professional insurance advisers and other relevant factors. The liability insurance obtained by Tenant under this Paragraph 4.04(a) shall (i) be primary and non-contributing; (ii) contain cross-liability endorsements; and (iii) insure Landlord against Tenant's performance under Section 5.05, if the matters giving rise to the indemnity under Section 5.05 arise from the negligence of Tenant. The amount and coverage of such insurance shall not limit Tenant's liability nor relieve Tenant of any other obligation under this Lease. Landlord may also obtain comprehensive public liability insurance in an amount and with coverage not less than \$2 Million Combined Single Limit determined by Landlord insuring Landlord against liability arising out of ownership, operation, use or occupancy of the Property. The policy obtained by Landlord shall not be contributory and shall not provide primary insurance.

(b) PROPERTY INCOME INSURANCE. During the Lease Term, Landlord shall maintain policies of insurance covering loss of or damage to the Property in the full amount of its replacement value. Such policy shall contain an Inflation Guard Endorsement and shall provide protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, special extended perils (all risk), sprinkler leakage and any other perils which Landlord deems reasonably necessary. Landlord shall have the right to obtain flood and earthquake insurance if required by any lender holding a security interest in the Property. Landlord shall not obtain insurance for Tenant's fixtures or equipment or building improvements installed by Tenant on the Property.

(c) PAYMENT OF PREMIUMS.

(i) Landlord shall pay the "Base Premiums" for the insurance policies maintained by Landlord under Paragraph 4.04(b). If the Property has been previously fully occupied, the "Base Premiums" are the insurance premiums paid during or applicable to the last twelve (12) months of such prior occupancy. If the Property has not been previously fully occupied or has been occupied for less than twelve (12) months, the Base Premiums are the lowest annual premiums reasonably obtainable for the required insurance for the Property as of the Commencement Date, with a carrier rated B+ or

better.

(ii) Tenant shall pay Landlord the amount, if any, by which the insurance premiums for all policies maintained by Landlord under Paragraph 4.04(b) have increased over the Base Premiums, whether such increases result from the nature of Tenant's occupancy, any act or omission of Tenant, the requirement of any lender referred to in Article Eleven (Protection of Lenders), the increased value of the Property or general rate increases. However, if Landlord substantially increases the amount of insurance carried or the percentage of insured value after the period during which the Base Premiums were calculated, Tenant shall only pay Landlord the amount of increased premiums which would have been charged by the

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insurance carrier if the amount of insurance or percentage of insured value had not been substantially increased by Landlord. This adjustment in the amount due from Tenant shall be made only once during the Lease Term. Thereafter, Tenant shall be obligated to pay the full amount of any additional increases in the insurance value. Tenant shall pay Landlord the increases over the Base Premiums within fifteen (15) days after receipt by Tenant of a copy of the premium statement or other evidence of the amount due. If the insurance policies maintained by Landlord cover improvements or real property other than the Property, Landlord shall also deliver to Tenant a statement of the amount of the premiums applicable to the Property showing, in reasonable detail, how such amount was computed. If the Lease Term expires before the expiration of the insurance period. Tenant's liability shall be pro rated on an annual basis.

GENERAL INSURANCE PROVISIONS

(i) Any insurance which Tenant is required to maintain under this Lease shall include a provision which requires the insurance carrier to give Landlord not less than fifteen (15) days' written notice prior to any cancellation or modification of such coverage.

(ii) If Tenant fails to deliver any policy, certificate or renewal to Landlord required under this Lease within the prescribed time period or if any such policy is cancelled or modified during the Lease Term without Landlord's consent, Landlord may obtain such insurance, in which case Tenant shall reimburse Landlord for the cost of such insurance within fifteen (15) days after receipt of a statement that indicates the cost of such insurance.

(iii) Tenant shall maintain all insurance required under this Lease with companies holding a "General Policy Rating" of A-12 or better, as set forth in the most current issue of "Best Key Rating Guide". Landlord and Tenant acknowledge the insurance markets are rapidly changing and that insurance in the form and amounts described in this Section 4.04 may not be available in the future. Tenant acknowledges that the insurance described in this Section 4.04 is for the primary benefit of Landlord and Tenant.

(iv) Unless prohibited under any applicable insurance policies maintained, Landlord and Tenant each hereby waive any and all rights of recovery against the other, or against the officers, employees, agents or representatives of the other, for loss of or damage to its property or the property of others under its control, if such loss or damage is covered by any insurance policy in force (whether or not described in this Lease) at the time of such loss or damage. Upon obtaining the required policies of insurance, Landlord and Tenant shall give notice to the insurance carriers of this mutual waiver of subrogation.

Section 4.05. LATE CHARGES. Tenant's failure to pay rent promptly may cause Landlord to incur unanticipated costs. The exact amount of such costs are impractical or extremely difficult to ascertain. Such costs may include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by any ground lease, mortgage or trust deed encumbering the Property. Therefore, if Landlord does not receive any rent payment within ten

(10) days after it becomes due, Tenant shall pay Landlord a late charge equal to five percent (5%) of the overdue amount. The parties agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of such late payment.

Section 4.06. INTEREST ON PAST DUE OBLIGATIONS. Any amount owed by Tenant to Landlord which is not paid when due shall bear interest at the rate of ten percent (10%) per annum from the due date of such amount. However, interest shall not be payable on late charges to be paid by Tenant under this Lease. The payment of interest on such amounts shall not excuse or cure any default by Tenant under this Lease. If the interest rate specified in this Lease is higher than the rate permitted by law, the interest rate is hereby decreased to the maximum legal interest rate permitted by law.

Section 4.07. IMPOUND FOR INSURANCE PREMIUMS AND REAL PROPERTY TAXES. If requested by any ground lessor or lender to whom Landlord has granted a security interest in the Property, or if Tenant is more than ten (10) days late in the payment of rent more than once in any consecutive twelve (12)-month period, Tenant shall pay Landlord a sum equal to one-twelfth (1/12) of the annual real property taxes and insurance premiums payable by Tenant under this Lease, together with each payment of Base Rent. Landlord shall hold such payments in a non-interest bearing impound account. If unknown, Landlord shall reasonably estimate the amount of real property taxes and insurance premiums when due. Tenant shall pay any deficiency of funds in the impound account to Landlord upon written request. If Tenant defaults under this Lease, Landlord may apply any funds in the impound account to any obligation then due under this Lease.

ARTICLE FIVE: USE OF PROPERTY

Section 5.01. PERMITTED USES. Tenant may use the Property only for the Permitted Uses set forth in Section 1.06 above.

Section 5.02. MANNER OF USE. Tenant shall not cause or permit the Property to be used in any way which constitutes a violation of any law, ordinance or governmental regulation or order, which materially interferes with the rights of other tenants of Landlord, or which constitutes a nuisance or waste. Tenant shall obtain and pay for all permits, including a Certificate of Occupancy, required for Tenant's occupancy of the Property and shall promptly take all actions necessary to comply with all applicable statutes, ordinances, rules, regulations, orders and requirements regulating the use by Tenant of the Property, including the Occupational Safety and Health Act.

Section 5.03. HAZARDOUS MATERIALS. As used in this Lease, the term "Hazardous Material" means any flammable items, explosives, radioactive materials, hazardous or toxic substances, material or waste or related materials, defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," or "toxic substances" now or subsequently regulated under any applicable federal, state or local laws or regulations, including [copy illegible] DDT, printing inks, acids, pesticides, ammonia compounds and other chemical products, asbestos, [copy illegible] materials which are subsequently found to have adverse effects on the environment or the health and safety of persons. Tenant shall not cause or permit any Hazardous Material to be generated, produced, brought upon, used, stored, treated or disposed of in or about the Property by Tenant, its agents, employees, contractors, sublessees or invitees without the prior written consent

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of Landlord. Landlord shall be entitled to take into account such other factors or facts as Landlord may reasonably determine to be relevant in determining whether to grant or withhold consent to Tenant's proposed activity with respect to Hazardous Material. In no event, however, shall Landlord be required to consent to the installation or use of any storage tanks on the Property.

Section 5.04. SIGNS AND AUCTIONS. Tenant shall not place any new signs on the Property without Landlord's prior written consent. Tenant shall not conduct or permit any auctions or sheriff's sales at the Property.

Section 5.05. INDEMNITY. Tenant shall indemnify Landlord against and hold Landlord harmless from any and all costs, claims or liability arising from: (a) Tenant's use of the Property; (b) the acts or omissions of Tenant's Tenant done in or about the Property, including any contamination of the Property or any other property resulting from the presence or use of Hazardous Material caused by Tenant; (c) any breach or default in the performance of Tenant's obligations under this Lease; (d) any misrepresentation or breach of warranty by Tenant under this Lease; or (e) other acts or omissions of Tenant. Tenant shall defend Landlord against any such cost, claim or liability at Tenant's expense with counsel reasonably acceptable to Landlord or, if tenant fails to do so, at Landlord's election. Tenant shall reimburse Landlord for any legal fees or costs incurred by Landlord in connection with any such claim. Tenant hereby waives all claims in respect thereof against Landlord, except for any claim arising out of Landlord's gross negligence or willful misconduct. As used in this Section, the term "Tenant" and landlord shall include their respective employees, agents, contractors and invitees, if applicable.

Section 5.06. LANDLORD'S ACCESS. Landlord or its agents may enter the Property at all reasonable times to show the Property to potential buyers, investors or tenants or other parties; to do any other act or to inspect and conduct tests in order to monitor Tenant's compliance with all applicable environmental laws and all laws governing the presence and use of Hazardous Material; or for any other purpose Landlord deems reasonably necessary. Landlord shall give Tenant reasonable prior notice of such entry, except in the case of an emergency. Landlord may place customary "For Sale" or "For Lease" signs on the Property.

Section 5.07. QUIET POSSESSION. If Tenant pays the rent and complies with all other terms of this Lease, Tenant may occupy and enjoy the Property for the full Lease Term, subject to the provisions of this Lease, and Landlord thereby grants Tenant quiet possession of the property.

ARTICLE SIX: CONDITION OF PROPERTY; MAINTENANCE, REPAIRS AND ALTERATIONS

Section 6.01. EXISTING CONDITIONS SUBJECT TO LANDLORD'S REPRESENTATIONS AND WARRANTIES SET FORTH HEREIN. Tenant accepts the Property in its condition as of the execution of the Lease, subject to all recorded matters, laws, ordinances, and governmental regulations and orders. Except as provided herein, Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation as to the condition of the Property or the suitability of the Property for Tenant's intended use. Tenant represents and warrants that Tenant has made its own inspection of and inquiry regarding the condition of the Property and subject to Landlord's representations and warranties set forth herein. Is not relying on any representations of Landlord or any Broker with respect thereto. If Landlord or Landlord's Broker has provided a Property Information Sheet or other Disclosure Statement regarding the Property, a copy is attached as an exhibit to the Lease. (See Addendum Section 19)

Section 6.02. EXEMPTION OF LANDLORD FROM LIABILITY EXCEPT FOR LANDLORD'S NEGLIGENCE OR BREACH OF WARRANTIES OR REPRESENTATIONS. Landlord shall not be liable for any damage or injury to the person, business (or any loss of income therefrom), goods, wares, merchandise or other property of Tenant, Tenant's employees, invitees, customers or any other person in or about the Property, whether such damage or injury is caused by or results from: (a) fire, steam, electricity, water, gas or rain; (b) the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures or any other cause; (c) conditions arising in or about the Property or from other sources or places; or (d) any act or omission of any other tenant of Landlord. Landlord shall not be liable for any such damage or injury even though the cause of or the means of repairing such damage or injury are not accessible to Tenant. The provisions of this Section 6.02 shall not, however, exempt Landlord from liability for Landlord's negligence or willful misconduct or as otherwise covered by its insurance.

Section 6.03. LANDLORD'S OBLIGATIONS. Subject to the provisions of Article Seven (Damage or Destruction) and Article Eight (Condemnation), and except for damage caused by any act or omission of Tenant, or Tenant's employees, agents, contractors or invitees, Landlord shall keep the foundation, roof and structural portions of exterior walls of the improvements on the Property in good order, condition and repair. However, Landlord shall not be obligated to maintain or repair windows, doors, plate glass or the surfaces of walls. Landlord shall not be obligated to make any repairs under this Section 6.03 until a reasonable time

after receipt of a written notice from Tenant of the need for such repairs. Tenant waives the benefit of any present or future law which might give Tenant the right to repair the Property at Landlord's expense or to terminate the Lease because of the condition of the Property. (See addendum Section 20)

Section 6.04. TENANT'S OBLIGATIONS.

(a) Except as provided in Article Seven (Damage or Destruction) and Article Eight (Condemnation), Tenant shall keep all portions of the Property (including nonstructural, interior, and landscaped areas if any, systems and equipment) in good order, condition and repair (including interior repainting and refinishing, as needed). If any portion of the Property or any system or equipment in the Property which Tenant is obligated to repair cannot be fully repaired or restored, Tenant shall promptly replace such portion of the Property or system or equipment in the Property, regardless of whether the benefit of such replacement extends beyond the Lease Term; but if the benefit or useful life of such replacement extends beyond the Lease Term (as such term may be extended by exercise of any options), the useful life of such replacement shall be prorated over the remaining portion of the Lease Term (as extended), and Tenant shall be liable only for that portion of the cost which is applicable to the Lease Term (as extended). Tenant shall maintain a preventive maintenance contract providing for the regular inspection and maintenance of the heating and air conditioning system by a licensed heating and air conditioning contractor. Landlord shall have the right, upon written notice to Tenant, to undertake the responsibility for preventive maintenance of the heating and air conditioning system at Tenant's expense. In addition, Tenant shall, at Tenant's expense, repair any damage to the roof, foundation or structural portions of walls caused by Tenant's acts or omission beyond normal. It is the intention of Landlord and [copy illegible] times during the Lease Term. Tenant shall maintain the Property in attractive, first-class and fully operative condition.

(b) Each party shall fulfill all of its obligations under this Section 6.04 at its sole expense. If either party fails to maintain, repair or replace the Property as required by this Section 6.04, the other party may, upon ten (10) days prior notice (except

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that not notice shall be required in the case of an emergency), enter the Property and perform such maintenance or repair (including replacement, as needed) on behalf of the other party. In such case, the defaulting party shall reimburse the non-defaulting party for all costs incurred in performing such maintenance or repair immediately upon demand.

Section 6.05. ALTERATIONS, ADDITIONS, AND IMPROVEMENTS. (See Addendum Section 21)

(a) Tenant shall not make any alterations, additions, or improvements to the Property without Landlord's prior written consent, except for non-structural alterations which do not exceeded Ten Thousand Dollars (\$10,000) in cost cumulatively over the Lease Term and which are not visible from the outside of any building of which the Property is part. Landlord may require Tenant to provide demolition and/or lien and completion bonds in form and amount satisfactory to Landlord if Tenant's financial status deteriorates below its status as of the Commencement Date. Tenant shall promptly remove any alterations, additions, or improvements constructed in violation of this Paragraph 6.05(a) upon Landlord's written request. All alterations, additions, and improvements shall be done in a good and workmanlike manner, in conformity with all applicable laws and regulations, and by a contractor approved by Landlord. Upon completion of any such work, Tenant shall provide Landlord with "as built" plans, copies of all construction contracts, and proof of payment for all labor and materials.

(b) Tenant shall pay when due all claims for labor and material furnished to the Property. Tenant shall give Landlord at least twenty (20) days' prior written notice of the commencement of any work on the Property, regardless of whether Landlord's consent to such work is required. Landlord may elect to record and post notices of non-responsibility on the Property.

Section 6.06. CONDITION UPON TERMINATION. Upon the termination of the Lease, Tenant shall surrender the Property to Landlord, broom clean and in the same condition as received except for ordinary wear and tear which Tenant was not otherwise obligated to remedy under any provision of this Lease. However, Tenant shall not be obligated to repair any damage which Landlord is required to repair under Article Seven (Damage or Destruction). All alterations, additions and improvements which Landlord has not required Tenant to remove which Tenant has not elected to remove shall become Landlord's property and shall be surrendered to Landlord upon the expiration or earlier termination of the Lease, except that Tenant may remove any of Tenant's machinery or equipment which can be removed without material damage to the Property. Tenant shall repair, at Tenant's expense, any damage to the Property caused by the removal of any such machinery or equipment. In no event, however, shall Tenant remove any of the following materials or equipment (which shall be deemed Landlord's property) without Landlord's prior written consent: any power wiring or power panels; lighting or lighting fixtures; wall coverings; drapes, blinds or other window coverings; carpets or other floor coverings; heaters, air conditioners or any other heating or air conditioning equipment; fencing or security gates; or other similar building operating equipment and decorations.

ARTICLE SEVEN: DAMAGE OR DESTRUCTION

Section 7.01. PARTIAL DAMAGE TO PROPERTY.

(a) Tenant shall notify Landlord in writing immediately upon the occurrence of any damage to the Property. If the Property is only partially damaged (i.e., less than fifty percent (50%) of the Property is untenantable as a result of such damage or less than fifty percent (50%) of Tenant's operations are materially impaired) and if the proceeds received by Landlord from the insurance policies described in Paragraph 4.04(b) are sufficient to pay for the necessary repairs or if Tenant is willing to make up the difference, this Lease shall remain in effect and Landlord shall repair the damage as soon as reasonably possible. Landlord may elect (but is not required) to repair any damage to Tenant's fixtures, equipment, or improvements.

(b) If the insurance proceeds received by Landlord are not sufficient to pay the entire cost of repair, or if the cause of the damage is not covered by the insurance policies which Landlord maintains under Paragraph 4.04(b), or if Tenant is willing to make up the difference, Landlord may elect either to (i) repair the damage as soon as reasonably possible, in which case this Lease shall remain in full force and effect, or (ii) terminate this Lease as of the date the damage occurred. Landlord shall notify Tenant within thirty (30) days after receipt of notice of the occurrence of the damage whether Landlord elects to repair the damage or terminate the Lease. If Landlord elects to repair the damage, Tenant shall pay Landlord the "deductible amount" (if any) under Landlord's Insurance policies and, if the damage was due to an act or omission of Tenant, or Tenant's employees, agents, contractors or invitees, the difference between the actual cost of repair and any insurance proceeds received by Landlord. If Landlord elects to terminate the Lease, Tenant may elect to continue this Lease in full force and effect, in which case Tenant shall repair any damage to the Property and any building in which the Property is located. Tenant shall pay the cost of such repairs, except that upon satisfactory completion of such repairs, Landlord shall deliver to Tenant any insurance proceeds received by Landlord for the damage repaired by Tenant. Tenant shall give Landlord written notice of such election within ten (10) days after receiving Landlord's termination notice.

(c) If the damage to the Property occurs during the last six (6) months of the Lease Term and such damage will require more than thirty (30) days to repair, either Landlord or Tenant may elect to terminate this Lease as of the date the damage occurred, regardless of the sufficiency of any insurance proceeds. The party electing to terminate this Lease shall give written notification to the other party of such election within thirty (30) days after Tenant's notice to Landlord of the occurrence of the damage.

Section 7.02. SUBSTANTIAL OR TOTAL DESTRUCTION. If the Property is substantially or totally destroyed by any cause whatsoever (i.e., the damage to the Property is greater than partial damage as described in Section 7.01), and regardless of whether Landlord receives any insurance proceeds, this Lease shall terminate as of the date the destruction occurred. Notwithstanding the preceding sentence, if the Property can be rebuilt within six (6) months after the date of destruction, Landlord may elect to rebuild the Property at Landlord's own expense, in which case this Lease shall remain in full force and effect.

Landlord shall notify Tenant of such election within thirty (30) days after Tenant's notice of the occurrence of total or substantial destruction. If Landlord so elects, Landlord shall rebuild the Property at Landlord's sole expense, except that if the destruction was caused by an act or omission of Tenant, Tenant shall pay Landlord the difference between the actual cost of rebuilding and any insurance proceeds received by Landlord.

Section 7.03 TEMPORARY [COPY ILLEGIBLE] restores the Property pursuant to the provisions of this Article Seven, any rent payable during the period of such damage, repair and/or restoration shall be reduced according to the degree, if any, to which Tenant's use of the Property is impaired. Except

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for such possible reduction in Base Rent, and insurance premiums and real property taxes. Tenant shall not be entitled to any compensation, reduction, or reimbursement from Landlord as a result of any damage, destruction, repair, or restoration of or to the Property.

Section 7.04 WAIVER. Tenant waives the protection of any statute, code or judicial decision which grants a tenant the right to terminate a lease in the event of the substantial or total destruction of the leased property. Tenant agrees that the provisions of Section 7.02 above shall govern the rights and obligations of Landlord and Tenant in the event of any substantial or total destruction to the Property.

ARTICLE EIGHT: CONDEMNATION

If all or any portion of the Property is taken under the power of eminent domain or sold under the threat of that power (all of which are called "Condemnation"), this Lease shall terminate as to the part taken or sold on the date the condemning authority takes title or possession, whichever occurs first. If more than twenty percent (20%) of the floor area of the building in which the Property is located, or which is located on the Property, is taken, either Landlord or Tenant may terminate this Lease as of the date the condemning authority takes title or possession, by delivering written notice to the other within ten (10) days after receipt of written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority takes title or possession). If neither Landlord nor Tenant terminates this Lease, this Lease shall remain in effect as to the portion of the Property not taken, except that the Base Rent and Additional Rent shall be reduced in proportion to the reduction in the floor area of the Property. Any Condemnation award or payment shall be distributed in the following order: (a) first, to any ground lessor, mortgagee or beneficiary under a deed of trust encumbering the Property, the amount of its interest in the Property; (b) second, to Tenant, only the amount of any award specifically designated for loss of or damage to Tenant's trade fixtures or removable personal property; and (c) third, to Landlord, the remainder of such award, whether as compensation for reduction in the value of the leasehold, the taking of the fee, or otherwise. If this Lease is not terminated, Landlord shall repair any damage to the Property caused by the Condemnation, except that Landlord shall not be obligated to repair any damage for which Tenant has been reimbursed by the condemning authority. If the severance damages received by Landlord are not sufficient to pay for such repair, Landlord shall have the right to either terminate this Lease or make such repair at Landlord's expense.

ARTICLE NINE: ASSIGNMENT AND SUBLETTING

Section 9.01. LANDLORD'S CONSENT REQUIRED. No portion of the Property or of Tenant's interest in this Lease may be acquired by any other person or entity, whether by sale, assignment, mortgage, sublease, transfer, operation of law, or act of Tenant, without Landlord's prior written consent, except as provided in Section 9.02 below. Landlord has the right to grant or withhold its consent as provided in Section 9.05 below. Any attempted transfer without consent shall be void and shall constitute a breach of this Lease. If Tenant is a partnership, any cumulative transfer of more than twenty percent (20%) of the partnership interests shall require Landlord's consent. If Tenant is a corporation, any change in the ownership of a controlling interest of the voting stock of the corporation shall require Landlord's consent.

Section 9.02. TENANT AFFILIATE. Tenant may assign this Lease or sublease the Property, without Landlord's consent, to any corporation which controls, is controlled by or is under common control with Tenant, or to any corporation resulting from the merger of or consolidation with Tenant ("Tenant's Affiliate"). In such case, any Tenant's Affiliate shall assume in writing all of Tenant's obligations under this Lease.

Section 9.03. NO RELEASE OF TENANT. No transfer permitted by this Article Nine, whether with or without Landlord's consent, shall release Tenant or change Tenant's primary liability to pay the rent and to perform all other obligations of Tenant under this Lease. Landlord's acceptance of rent from any other person is not a waiver of any provision of this Article Nine. Consent to one transfer is not a consent to any subsequent transfer. If Tenant's transferee defaults under this Lease, Landlord may proceed directly against Tenant without pursuing remedies against the transferee. Landlord may consent to subsequent assignments or modifications of this Lease by Tenant's transferee, without notifying Tenant or obtaining its consent. Such action shall not relieve Tenant's liability under this Lease.

Section 9.05. LANDLORD'S CONSENT.

(a) Tenant's request for consent to any transfer described in Section 9.01 shall set forth in writing the details of the proposed transfer, including the name, business and financial condition of the prospective transferee, financial details of the proposed transfer (e.g., the term of and the rent and security deposit payable under any proposed assignment or sublease), and any other information Landlord deems relevant. Landlord shall have the right to withhold consent, if reasonable, or to grant consent, based on the following factors: (i) the business of the proposed assignee or subtenant and the proposed use of the Property; (ii) the net worth and financial reputation of the proposed assignee or subtenant; (iii) Tenant's compliance with all of its obligations under the Lease; and (iv) such other factors as Landlord may reasonably deem relevant. If Landlord objects to a proposed assignment solely because of the net worth and/or financial reputation of the proposed assignee, Tenant may nonetheless sublease (but not assign), all or a portion of the Property to the proposed transferee, but only on the other terms of the proposed transfer.

(b) If Tenant assigns or subleases, the following shall apply:

(i) Tenant shall pay to Landlord as Additional Rent under the Lease the Landlord's Share (stated in Section 1.14) of the Profit (defined below) on such transaction as and when received by Tenant, unless Landlord gives written notice to [COPY ILLEGIBLE] Landlord's share shall be paid by the assignee or subtenant to Landlord directly. The "Profit" means (A) all amounts paid to Tenant for such assignment or sublease, including "key" money, monthly rent in excess of the monthly rent payable under the Lease, and all fees and other consideration paid for the assignment or sublease, including fees under any collateral agreements, less (B) costs and expenses directly incurred by Tenant in connection with the execution and performance of such assignment or sublease for real estate broker's commissions and

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costs of renovation or construction or tenant improvements required under such assignment or sublease. Tenant is entitled to recover such costs and expenses before Tenant is obligated to pay the Landlord's Share to Landlord. The Profit in the case of a sublease of less than all the Property is the rent allocable to the subleased space as a percentage on a square footage basis.

(ii) Tenant shall provide Landlord a written statement certifying all amounts to be paid from any assignment or sublease of the Property within thirty (30) days after the transaction documentation is signed, and Landlord may inspect Tenant's books and records to verify the accuracy of such statement. On written request, Tenant shall promptly furnish to Landlord copies of all the transaction documentation, all of which shall be

certified by Tenant to be complete, true and correct. Landlord's receipt of Landlord's Share shall not be a consent to any further assignment or subletting. The breach of Tenant's obligation under this Paragraph 9.05(b) shall be a material default of the Lease.

Section 9.06. NO MERGER. No merger shall result from Tenant's sublease of the Property under this Article Nine, Tenant's surrender of this Lease or the termination of this Lease in any other manner. In any such event, Landlord may terminate any or all subtenancies or succeed to the interest of Tenant as sublandlord under any or all subtenancies.

ARTICLE TEN: DEFAULTS; REMEDIES

Section 10.01. COVENANTS AND CONDITIONS. Tenant's performance of each of Tenant's obligations under this Lease is a condition as well as covenant. Tenant's right to continue in possession of the Property is conditioned upon such performance. Time is of the essence in the performance of all covenants and conditions.

Section 10.02. DEFAULTS. Tenant shall be in material default under this Lease:

(a) If Tenant abandons the Property or if Tenant's vacation of the Property results in the cancellation of any insurance described in Section 4.04; for a period of five (5) days after written notice from Landlord;

(b) If Tenant fails to pay rent or any other charge when due; for a period of five (5) days after written notice from Landlord.

(c) If Tenant fails to perform any of Tenant's non-monetary obligations under this Lease for a period of thirty (30) days after written notice from Landlord; provided that if more than thirty (30) days are required to complete such performance, Tenant shall not be in default if Tenant commences such performance within the thirty (30)-day period and thereafter diligently pursues its completion. However, Landlord shall not be required to give such notice if Tenant's failure to perform constitutes a non-curable breach of this Lease. The notice required by this Paragraph is intended to satisfy any and all notice requirements imposed by law on Landlord and is not in addition to any such requirement.

(d) (i) If Tenant makes a general assignment or general arrangement for the benefit of creditors; (ii) if a petition for adjudication of bankruptcy or for reorganization or rearrangement is filed by or against Tenant and is not dismissed within thirty (30) days; (iii) if a trustee or receiver is appointed to take possession of substantially all of Tenant's assets located at the Property or of Tenant's interest in this Lease and possession is not restored to Tenant within sixty (60) days; or (iv) if substantially all of Tenant's assets located at the Property or of Tenant's interest in this Lease is subjected to attachment, execution of other judicial seizure which is not discharged within sixty (60) days. If a court of competent jurisdiction determines that any of the acts described in this subparagraph (d) is not a default under this Lease, and a trustee is appointed to take possession (or if Tenant remains a debtor in possession) and such trustee or Tenant transfers Tenant's interest hereunder, then Landlord shall receive, as Additional Rent, the excess, if any, of the rent (or any other consideration) paid in connection with such assignment or sublease over the rent payable by Tenant under this Lease.

(e) If any guarantor of the Lease revokes or otherwise terminates, or purports to revoke or otherwise terminate, any guaranty of all or any portion of Tenant's obligations under the Lease. Unless otherwise expressly provided, no guaranty of the Lease is revocable.

Section 10.03. REMEDIES. On the occurrence of any material default by Tenant, Landlord may, at any time thereafter, with or without notice or demand and without limiting Landlord in the exercise of any right or remedy which Landlord may have:

(a) Terminate Tenant's right to possession of the Property by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Property to Landlord. In such event, Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default, including (i) the worth at the time of the award of the

unpaid Base Rent, Additional Rent and other charges which Landlord had earned at the time of the termination; (ii) the worth at the time of the award of the amount by which the unpaid Base Rent, Additional Rent and other charges which Landlord would have earned after termination until the time of the award exceeds the amount of such rental loss that Tenant proves Landlord could have reasonably avoided; (iii) the worth at the time of the award of the amount by which the unpaid Base Rent, Additional Rent and other charges which Tenant would have paid for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves Landlord could have reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, any costs or expenses Landlord incurs in maintaining or preserving the Property after such default, the cost of recovering possession of the Property, expenses of reletting, including necessary renovation or alteration of the Property, Landlord's reasonable attorneys' fees incurred in connection therewith, and any real estate commission paid or payable. As used in subparts (i) and (ii) above, the "worth at the time of the award" is computed by allowing interest on unpaid amounts at the rate of ten percent (10%) per annum, or such lesser amount as may then be the maximum lawful rate. As used in subpart (iii) above, the "worth at the time of the award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one percent (1%). If Tenant has abandoned the Property, Landlord shall have the option of (i) retaking possession of the Property and recovering from Tenant the amount specified in this Paragraph 10.03(a), or (ii) proceeding under Paragraph 10.03(b);

(b) Maintain Tenant's right to possession, in which case this Lease shall continue in effect whether or not Tenant has abandoned the Property, in such event, Landlord shall be entitled to enforce all of Landlord's rights and remedies under this Lease, including the right to recover the rent as it becomes due;

(c) Pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the state in which the Property is located.

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Section 10.04. REPAYMENT OF "FREE" RENT. If this Lease provides for a postponement of any monthly rental payments, a period of "free" rent or other rent concession, such postponed rent or "free" rent is called the "Abated Rent". Tenant shall be credited with having paid all of the Abated Rent on the expiration of the Lease Term only if Tenant has fully, faithfully, and punctually performed all of Tenant's obligations hereunder, including the payment of all rent (other than the Abated Rent) and all other monetary obligations and the surrender of the Property in the physical condition required by this Lease. Tenant acknowledges that its right to receive credit for the Abated Rent is absolutely conditioned upon Tenant's full, faithful and punctual performance of its obligations under this Lease. If Tenant defaults and does not cure within any applicable grace period, the Abated Rent shall immediately become due and payable in full and this Lease shall be enforced as if there were no such rent abatement or other rent concession. In such case Abated Rent shall be calculated based on the full initial rent payable under this Lease.

Section 10.05. AUTOMATIC TERMINATION. Notwithstanding any other term or provision hereof to the contrary, the Lease shall terminate on the occurrence of any act which affirms the Landlord's intention to terminate the Lease as provided in Section 10.03 hereof, including the filing of an unlawful detainer action against Tenant. On such termination, Landlord's damages for default shall include all costs and fees, including reasonable attorneys' fees that Landlord incurs in connection with the filing, commencement, pursuing and/or defending of any action in any bankruptcy court or other court with respect to the Lease; the obtaining of relief from any stay in bankruptcy restraining any action to evict Tenant; or the pursuing of any action with respect to

Landlord's right to possession of the Property. All such damages suffered (apart from Base Rent and other rent payable hereunder) shall constitute pecuniary damages which must be reimbursed to Landlord prior to assumption of the Lease by Tenant or any successor to Tenant in any bankruptcy or other proceeding.

Section 10.06 CUMULATIVE REMEDIES. Landlord's exercise of any right or remedy shall not prevent it from exercising any other right or remedy.

ARTICLE ELEVEN: PROTECTION OF LENDERS (See Addendum Section 22.)

Section 11.01. SUBORDINATION. Landlord shall have the right to subordinate this Lease to any ground lease, deed of trust or mortgage encumbering the Property, any advances made on the security thereof and any renewals, modifications, consolidations, replacements or extensions thereof, whenever made or recorded. Tenant shall cooperate with Landlord and any lender which is acquiring a security interest in the Property or the Lease. Tenant shall execute such further documents and assurances as such lender may require, provided that Tenant's obligations under this Lease shall not be increased in any material way (the performance of ministerial acts shall not be deemed material), and Tenant shall not be deprived of its rights under this Lease. Tenant's right to quiet possession of the Property during the Lease Term shall not be disturbed if Tenant pays the rent and performs all of Tenant's obligations under this Lease and is not otherwise in default. If any ground lessor, beneficiary or mortgagee elects to have this Lease prior to the lien of its ground lease, deed of trust or mortgage and gives written notice thereof to Tenant, this Lease shall be deemed prior to such ground lease, deed of trust or mortgage whether this Lease is dated prior or subsequent to the date of said ground lease, deed of trust or mortgage or the date of recording thereof.

Section 11.02. ATTORNMEN. If Landlord's interest in the Property is acquired by any ground lessor, beneficiary under a deed of trust, mortgagee, or purchaser at a foreclosure sale, Tenant shall attorn to the transferee of or successor to Landlord's interest in the Property and recognize such transferee or successor as Landlord under this Lease. Tenant waives the protection of any statute or rule of law which gives or purports to give Tenant any right to terminate this Lease or surrender possession of the Property upon the transfer of Landlord's interest.

Section 11.03. SIGNING OF DOCUMENTS. Tenant shall sign and deliver any instrument or documents reasonably necessary or appropriate to evidence any such attornment or subordination or agreement to do so. If Tenant fails to do so within ten (10) days after written request, Landlord may execute and deliver any such instrument or document.

Section 11.04. ESTOPPEL CERTIFICATES.

(a) Upon Landlord's written request, Tenant shall execute, acknowledge and deliver to Landlord a written statement certifying to the extent accurate: (i) that none of the terms or provisions of this Lease have been changed (or if they have been changed, stating how they have been changed); (ii) that this Lease has not been cancelled or terminated; (iii) the last date of payment of the Base Rent and other charges and the time period covered by such payment; (iv) that Landlord is not in default under this Lease (or, if Landlord is claimed to be in default, stating why); and (v) such other representations or information with respect to Tenant or the Lease as Landlord may reasonably request or which any prospective purchaser or encumbrancer of the Property may require. Tenant shall deliver such statement to Landlord within ten (10) days after Landlord's request. Landlord may give any such statement by Tenant to any prospective purchaser or encumbrancer of the Property. Such purchaser or encumbrancer may rely conclusively upon such statement as true and correct. (See Addendum Section 22)

(b) If Tenant does not deliver such statement to Landlord within such ten (10)-day period, Landlord, and any prospective purchaser or encumbrancer, may conclusively presume and rely upon the following facts to the extent not otherwise known to Landlord: (i) that the terms and provisions of this Lease have not been changed except as otherwise represented by Landlord; (ii) that this Lease has not been cancelled or terminated except as otherwise represented by Landlord; (iii) that not more than one month's Base Rent or other charges have been paid in advance; and (iv) that Landlord is not in default under the Lease. In such event, Tenant shall be stopped from denying the truth of such facts.

Section 11.05. TENANT'S FINANCIAL CONDITION. Within ten (10) days after written request from Landlord, Tenant shall deliver to Landlord such financial statements as Landlord reasonably requires to verify the net worth of Tenant or any assignee, subtenant, or guarantor of Tenant. In addition, Tenant shall deliver to any lender designated by Landlord any financial statements required by such lender to facilitate the financing or refinancing of the Property. Tenant represents and warrants to Landlord that each such financial statement is a true and accurate statement as of the date of such statement. All financial statements shall be confidential and shall be used only for the purposes set forth in this Lease.

ARTICLE TWELVE. LEGAL COSTS

Section 12.01. LEGAL PROCEEDINGS. If Tenant or Landlord shall be in breach or default under this Lease, such party (the "Defaulting Party") shall reimburse the other party (the "Nondefaulting Party") upon demand for any reasonable costs or expenses that the Nondefaulting Party incurs in connection with any breach or default of the Defaulting Party under this lease, whether or not suit is commenced or judgment entered. Such costs shall include legal fees and costs incurred for the negotiation of a settlement, enforcement of rights or otherwise. Furthermore if any action for breach of or to enforce the provisions of this lease is commenced, the court in such action shall award to the party in whose favor a judgment is entered, a reasonable sum as attorneys' fees and costs. The losing party in such action shall pay such attorneys' fees and costs.

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Section 12.02. LANDLORD'S CONSENT. Tenant shall pay Landlord's reasonable actual attorneys' fees incurred in connection with Tenant's request for Landlord's consent under Article Nine (Assignment and Subletting), or in connection with any other act which Tenant proposes to do and which requires Landlord's consent.

ARTICLE THIRTEEN: MISCELLANEOUS PROVISIONS

Section 13.01. NON-DISCRIMINATION. Tenant promises, and it is a condition to the continuance of this Lease, that there will be no discrimination against, or segregation of, any person or group of persons on the basis of race, color, sex, creed, national origin or ancestry in the leasing, subleasing, transferring, occupancy, tenure or use of the Property or any portion thereof.

Section 13.02. LANDLORD'S LIABILITY; CERTAIN DUTIES.

(a) As used in this Lease, the term "Landlord" means only the current owner or owners of the fee title to the Property or the leasehold estate under a ground lease of the Property at the time in question. Each Landlord is obligated to perform the obligations of Landlord under this Lease only during the time such Landlord owns such interest or title. Any Landlord who transfers its title or interest is relieved of all liability with respect to the obligations of Landlord under this Lease to be performed on or after the date of transfer. However, each Landlord shall deliver to its transferee all funds that Tenant previously paid if such funds have not yet been applied under the terms of this Lease.

(b) Tenant shall give written notice of any failure by Landlord to perform any of its obligations under this Lease to Landlord and to any ground lessor, mortgagee or beneficiary under any deed of trust encumbering the Property whose name and address have been furnished to Tenant in writing. Landlord shall not be in default under this Lease unless Landlord (or such ground lessor, mortgagee or beneficiary) fails to cure such non-performance within thirty (30) days after receipt of Tenant's notice. However, if such non-performance reasonably requires more than thirty (30) days to cure, Landlord shall not be in default if such cure is commenced within such thirty (30)-day period and thereafter diligently pursued to completion.

(c) Notwithstanding any term or provision herein to the contrary, the

liability of Landlord for the performance of its duties and obligations under this Lease is limited to Landlord's interest in the Property, and neither the Landlord nor its partners, shareholders, officers or other principals shall have any personal liability under this Lease.

Section 13.03. SEVERABILITY. A determination by a court of competent jurisdiction that any provision of this Lease or any part thereof is illegal or unenforceable shall not cancel or invalidate the remainder of such provision or this Lease, which shall remain in full force and effect.

Section 13.04. INTERPRETATION. The captions of the Articles or Sections of this Lease are to assist the parties in reading this Lease and are not a part of the terms or provisions of this Lease. Whenever required by the context of this Lease, the singular shall include the plural and the plural shall include the singular. The masculine, feminine and neuter genders shall each include the other. In any provision relating to the conduct, acts or omissions of Tenant, the term "Tenant" shall include Tenant's agents, employees, contractors, invitees, successors or others using the Property with Tenant's expressed or implied permission.

Section 13.05. INCORPORATION OF PRIOR AGREEMENTS; MODIFICATIONS. This Lease is the only agreement between the parties pertaining to the lease of the Property and no other agreements are effective. All amendments to this Lease shall be in writing and signed by all parties. Any other attempted amendment shall be void.

Section 13.06. NOTICES. All notices required or permitted under this Lease shall be in writing and shall be personally delivered or sent by certified mail, return receipt requested, postage prepaid. Notices to Tenant shall be delivered to the address specified in Section 1.03 above, except that upon Tenant's taking possession of the Property, the Property shall be Tenant's address for notice purposes. Notices to Landlord shall be delivered to the address specified in Section 1.02 above. All notices shall be effective upon delivery. Either party may change its notice address upon written notice to the other party.

Section 13.07. WAIVERS. All waivers must be in writing and signed by the waiving party. Landlord's failure to enforce any provision of this Lease or its acceptance of rent shall not be a waiver and shall not prevent Landlord from enforcing that provision or any other provision of this Lease in the future. No statement on a payment check from Tenant or in a letter accompanying a payment check shall be binding on Landlord. Landlord may, with or without notice to Tenant, negotiate such check without being bound to the conditions of such statement.

Section 13.08. NO RECORDATION. Tenant shall not record this Lease without prior written consent from Landlord. However, either Landlord or Tenant may require that a "Short Form" memorandum of this Lease executed by both parties be recorded. The party requiring such recording shall pay all transfer taxes and recording fees.

Section 13.09. BINDING EFFECT: CHOICE OF LAW. This Lease binds any party who legally acquires any rights or interest in this Lease from Landlord or Tenant. However, Landlord shall have no obligation to Tenant's successor unless the rights or interests of Tenant's successor are acquired in accordance with the terms of this Lease. The laws of the state in which the [COPY HERE IS MISSING].

Section 13.10. CORPORATE AUTHORITY; PARTNERSHIP AUTHORITY. If Tenant is a corporation, each person signing this Lease on behalf of Tenant represents and warrants that he has full authority to do so and that this Lease binds the corporation. Within thirty (30) days after this Lease is signed, Tenant shall deliver to Landlord a certified copy of a resolution of Tenant's Board of

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(Single-Tenant Gross Form)

Directors authorizing the execution of the Lease or other evidence of such authority reasonably acceptable to Landlord. If Tenant is a partnership, each

person or entity signing this Lease for Tenant represents and warrants that he or it is a general partner of the partnership, that he or it has full authority to sign for the partnership and that this Lease binds the partnership and all general partners of the partnership. Tenant shall give written notice to Landlord of any general partner's withdrawal or addition. Within thirty (30) days after this Lease is signed, Tenant shall deliver to Landlord a copy of Tenant's recorded statement of partnership or certificate of limited partnership.

Section 13.11. JOINT AND SEVERAL LIABILITY. All parties signing this Lease as Tenant shall be jointly and severally liable for all obligations of Tenant.

Section 13.12. FORCE MAJEURE. If Landlord or Tenant cannot perform any of its obligations due to events beyond its control, the time provided for performing such obligations shall be extended by a period of time equal to the duration of such events. Events beyond a party's control include, but are not limited to, acts of God, war, civil commotion, labor disputes, strikes, fire, flood or other casualty, shortages of labor or material, government regulation or restriction and weather conditions.

Section 13.13. EXECUTION OF LEASE. This Lease may be executed in counterparts and, when all counterpart documents are executed, the counterparts shall constitute a single binding instrument. Landlord's delivery of this Lease to Tenant shall not be deemed to be an offer to lease and shall not be binding upon either party until executed and delivered by both parties.

Section 13.14. SURVIVAL. All representations and warranties of Landlord and Tenant shall survive the termination of this Lease.

ARTICLE FOURTEEN: BROKERS

ARTICLE FIFTEEN: COMPLIANCE

The parties hereto agree to comply with all applicable federal, state and local laws, regulations, codes, ordinances and administrative orders having jurisdiction over the parties, property of the subject matter of this Agreement, including, but not limited to, the 1964 Civil Rights Act and all amendments thereto, the Foreign Investment In Real Property Tax Act, the Comprehensive Environmental Response Compensation and Liability Act, and The Americans With Disabilities Act.

ADDITIONAL PROVISIONS MAY BE SET FORTH IN A RIDER OR RIDERS ATTACHED HERETO OR IN THE BLANK SPACE BELOW. IF NO ADDITIONAL PROVISIONS ARE INSERTED, PLEASE DRAW A LINE THROUGH THE SPACE BELOW.

See attached Addendum.

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(Single-Tenant Gross Form)

Landlord and Tenant have signed this Lease at the place and on the dates specified adjacent to their signatures below and have initialled all Riders which are attached to or incorporated by reference in this Lease.

"LANDLORD"

Signed on _____, 19 ____ (1) Hold/Hawthorne, a California L.P. and
at _____ (2) Victory Partners, a California L.P.

(1) By: [SIGNATURE ILLEGIBLE]

ITS: GENERAL PARTNERS

(2) BY: [SIGNATURE ILLEGIBLE]

ITS: GENERAL PARTNERS

"TENANT"

Signed on _____, 19 ____ Skechers, USA, Inc.
at _____ a California Corporation

By: /s/ DAVID WEINBERG

ITS: _____

BY: _____

ITS: _____

IN ANY REAL ESTATE TRANSACTION, IT IS RECOMMENDED THAT YOU CONSULT WITH A PROFESSIONAL, SUCH AS A CIVIL ENGINEER, INDUSTRIAL HYGIENIST OR OTHER PERSON WITH EXPERIENCE IN EVALUATING THE CONDITION OF THE PROPERTY, INCLUDING THE POSSIBLE PRESENCE OF ASBESTOS, HAZARDOUS MATERIALS AND UNDERGROUND STORAGE TANKS.

THIS PRINTED FORM LEASE HAS BEEN DRAFTED BY LEGAL COUNSEL AT THE DIRECTION OF THE SOUTHERN CALIFORNIA CHAPTER OF THE SOCIETY OF INDUSTRIAL AND OFFICE REALTORS(R), INC. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE SOUTHERN CALIFORNIA CHAPTER OF THE SOCIETY OF INDUSTRIAL AND OFFICE REALTORS, INC.(R), ITS LEGAL COUNSEL, THE REAL ESTATE BROKERS NAMED HEREIN, OR THEIR EMPLOYEES OR AGENTS, AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT OR TAX CONSEQUENCES OF THIS LEASE OR OF THIS TRANSACTION. LANDLORD AND TENANT SHOULD RETAIN LEGAL COUNSEL TO ADVISE THEM ON SUCH MATTERS AND SHOULD RELY UPON THE ADVICE OF SUCH LEGAL COUNSEL.

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of the Society of Industrial
and Office Realtors, Inc. /s/ [Initials Illegible]

(Single-Tenant Gross Form)

EXHIBIT "A"

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

THE SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT (the "Agreement") is made as of the ___ day of _____, 19__ by and between _____, a _____, and its successor and/or assigns, having an address at _____ ("Lender") and _____, having an address at _____ ("Tenant").

RECITALS:

A. Lender is the present owner and holder of a certain mortgage and security agreement (the "Security Instrument") dated _____, 19__, given by Landlord (defined below) to Lender which encumbers the leased fee estate of Landlord in certain premises described in Exhibit A attached hereto (the "Property") and which secures the payment of certain indebtedness owed by Landlord to Lender evidenced by a certain promissory note dated _____, 19__, given by Landlord to Lender (the "Note");

B. Tenant is the holder of a leasehold estate in a portion of the Property under and pursuant to the provisions of a certain lease dated _____, 19__, between _____, as Landlord ("Landlord") and Tenant, as tenant (the "Lease"); and

C. Tenant has agreed to subject and subordinate the Lease to the Security Instrument and to the lien thereof and Lender has agreed to grant non-disturbance to Tenant under the Lease on the terms and conditions hereinafter set forth.

AGREEMENT:

For good and valuable consideration, Tenant and Lender agree as follow:

1. SUBORDINATION. Tenant agrees that the Lease and all of the terms, covenants and provisions thereof and all rights, remedies and options of Tenant thereunder are and shall at all times continue to be subject and subordinate in all respects to the Security Instrument and to the lien thereof including without limitation all renewals, increases, modifications, spreaders, consolidations, replacements and extensions thereof and to all sums secured thereby with the same force and effect as if the Security Instrument had been executed, delivered and recorded prior to the execution and delivery of the Lease.

2. NON DISTURBANCE. Lender agrees that if any action or proceeding is commenced by Lender for the foreclosure of the Security Instrument or the sale of the Property, Tenant shall not be named as a party therein unless such joinder shall be required by law, provided, however, such joinder shall not result in the termination of the Lease or disturb the Tenant's possession or use of the premises demised thereunder, and the sale of the Property in any such action or proceeding and the exercise by Lender of any of its other rights under the Note or the Security Instrument shall be made subject to all rights of Tenant under the Lease, provided that at the time of the commencement of any such action or proceeding or at the time of any such sale or exercise of any such other rights (a) the term of the Lease shall have commenced pursuant to the provisions thereof, (b) Tenant shall be in possession of the premises demised under the Lease, (c) the Lease shall be in full force and effect and (d) Tenant shall not be in default under any of the terms, covenants or conditions of the Lease or of this Agreement on Tenant's part to be observed or performed.

3. ATTORNMEN. Lender and Tenant agree that if Lender shall become the owner of the Property by reason of the foreclosure of the Security Instrument or the acceptance of a deed or assignment in lieu of foreclosure or otherwise, and the conditions set forth in Section 2 above have been met at the time Lender becomes owner of the Property, the Lease shall not be terminated or affected thereby but shall continue in full force and effect as a direct lease between Lender and Tenant upon all of the terms, covenants and conditions set forth in the Lease and in that event, Tenant agrees to attorn to Lender and Lender agrees to accept such attornment, provided, however, that the provisions of the Security Instrument shall govern with respect to the disposition of any casualty insurance proceeds or condemnation awards and Lender shall not be (a) obligated to complete any construction work acquired to be done by Landlord pursuant to the provisions of the Lease or to reimburse Tenant for any construction work done by Tenant, (b) liable (i) for Landlord's failure to perform any of its obligations under the Lease which have accrued prior to the date on which Lender shall become the owner of the Property, or (a) for any act or omission of Landlord, whether prior to or after such foreclosure or sale; (c) required to make any repairs to the Property or to the premises demised under the Lease required as a result of fire, or other casualty or by reason of condemnation unless Lender shall be obligated under the Lease as a result of fire, or other casualty or by reason of condemnation unless Lender shall be obligated under the Lease to make such repairs and shall have received sufficient casualty insurance proceeds or condemnation awards to finance the completion of such repairs; (d) required to make any capital improvements to the Property or to the premises demised under the Lease which Landlord may have agreed to make, but had not completed, or to perform or provide any services not related to possession or quiet enjoyment of the premises demised under the Lease; (e) subject to any offsets, defenses, abatements or counterclaims which shall have accrued to Tenant against Landlord prior to the date upon which Lender shall become the owner of the Property; (f) liable for the return of rental security deposits, if any, paid by Tenant to Landlord in accordance with the Lease unless such sums are actually received by Landlord; (g) bound by any payment of rents, additional rents or other sums which Tenant may have paid more than one (1) month in advance to any prior Landlord unless (i) such sums

are actually received by Lender or (ii) such prepayment shall have been expressly approved of by Lender, (h) bound to make any payment to Tenant which was required under the Lease, or otherwise, to be made prior to the time Lender succeeded to Landlord's interest; (i) bound by any agreement amending, modifying or terminating the Lease made without Lender's prior written consent prior to the time Lender succeeded to Landlord's interest or (j) bound by any assignment of the Lease or sublease of the Property, or any portion thereof, made prior to the time Lender succeeded to Landlord's interest other than if pursuant to the provisions of the Lease.

4. NOTICE TO TENANT. After notice is given to Tenant by Lender that the Landlord is in default under the Note and the Security Instrument and that the rentals under the Lease should be paid to Lender pursuant to the terms of the assignment of leases and rents executed and delivered by Landlord to Lender in connection therewith. Tenant shall thereafter pay to Lender or as directed by the Lender, all rentals and all other monies due or to become due to Landlord under the Lease and Landlord hereby expressly authorizes Tenant to make such payments to Lender and hereby releases and discharges Tenant from any liability to Landlord on account of any such payments.

5. LENDER'S CONSENT. Tenant shall not, without obtaining the prior written consent of Lender, (a) enter into any agreement amending, modifying or terminating the Lease, (b) prepay any of the rents, additional rents or other sums due under the Lease for more than one (1) month in advance of the due dates thereof; (c) voluntarily surrender the premises demised under the Lease or terminate the Lease without cause or shortcut the term thereof, or (d) assign the Lease or sublet the premises demised under the Lease or any part thereof other than pursuant to the provisions of the Lease; and any such amendment, modification, termination, prepayment, voluntary surrender, assignment or subletting, without Lender's prior consent, shall not be binding upon Lender.

6. REPRESENTATIONS AND WARRANTIES. Tenant hereby represents and warrants to Lender that as of the date hereof (a) Tenant is the owner and holder of the tenant's interest under the Lease; (b) the Lease has not been modified or amended; (c) the Lease is in full force and effect and the term thereof commenced on May 1, 1988, pursuant to the premises thereof; (d) the premises demised under the Lease have been completed and Tenant has taken possession of the same on a rent paying basis; (e) neither Tenant nor Landlord is in default under or in breach of any of the terms, covenants or provisions of the Lease and Tenant to the best of its knowledge knows of no event which but for the passage of time or the giving of notice or both would constitute an event of default or breach by Tenant or Landlord under the Lease; (f) neither Tenant nor Landlord has commenced any action or given or received any notice for the purpose of terminating the Lease; (g) all rents, additional rents and other sums due and payable under the Lease have been paid in full and no rents, additional rents or other sums due and payable under the Lease have been paid in full and no rents, additional rents or other sums payable under the Lease have been paid for more than one (1) month in advance of the due dates thereof; (h) there are no offsets or defenses to the payment of the rents, additional rents, or other sums payable under the Lease, (i) Tenant has no option or right of first refusal to purchase the premises demised under the Lease or any portion thereof or any right or option for additional space with respect to the premises demised; (j) no action, whether voluntary or otherwise, is pending against Tenant under the bankruptcy, insolvency or similar laws of the United States or any state thereof, and (k) Tenant has deposited the security deposit set forth in the Lease with Landlord.

7. ENVIRONMENTAL COVENANTS AND INDEMNITY. Tenant covenants and agree that the Premises shall not be used for any activities involving, directly or indirectly, the use, generation, treatment, storage, or disposal of any hazardous or toxic chemical, material, substance or waste. Tenant covenants and agrees to indemnify and hold Landlord harmless from any and all costs, expenses, losses, actions, suits, claims, judgments, and any other liability whatsoever in connection with a breach by Tenant of any federal, state or local environmental protection laws and regulations.

8. LENDER TO RECEIVE NOTICES. Tenant shall provide Lender with copies of all written notices sent to Landlord pursuant to the Lease simultaneously. Tenant shall notify Lender of any default by Landlord under the Lease which would entitle Tenant to cancel the Lease or to an abatement of the rents, additional rents or other sums payable thereunder, and agrees that, notwithstanding any provisions of the Lease to the contrary, no notice of

cancellation thereof or of such an abatement shall be effective and shall have failed within sixty (60) days after receipt of such notice to cure such default, or if such default cannot be cured within sixty (60) days, have failed within sixty (60) days after receipt of such notice to commence and thereafter diligently pursue any action necessary to cure such default.

9. NOTICES. All notices or other written communications hereunder shall be deemed to have been properly given (i) upon delivery, if delivered in person or by facsimile transmission with receipt acknowledged by the recipient thereof, (ii) one (1) Business Day (hereinafter defined) after having been deposited for overnight delivery with any reputable overnight courier service, or (iii) three (3) Business Days after having been deposited in any post office or mail depository regularly maintained by the U.S. Postal Service and sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to Tenant: _____

Attention: _____
Facsimile No.: _____

If to Lender: _____

Attention: _____

With a copy to: _____

Attention: _____
Facsimile No.: _____

or addressed as such party may from time to time designate by written notice to the other parties. For purposes of this Section 8, the term "Business Day" shall mean a day on which commercial banks are not authorized by law to close in New York, New York.

Either party by notice to the other may designate additional or different addresses for subsequent notices or communications.

10. JOINT AND SEVERAL LIABILITY. If Tenant consists of more than one person, the obligations and liabilities of each such person hereunder shall be joint and several. This Agreement shall be binding upon and inure to the benefit of Lender and Tenant and their respective successors and assigns.

11. DEFINITIONS. The term "Lender" as used herein shall include the successors and assigns of Lender and any person, party or entity which shall become the owner of the Property by reason of a foreclosure of the Security Instrument or the acceptance of a deed or assignment in lieu of foreclosure or otherwise. The term "Landlord" as used herein shall mean and include the present landlord under the Lease and such landlord's predecessors and successors in interest under the Lease, but shall not mean or include Lender. The term "Property" as used herein shall mean the Property, the improvements now or hereafter located thereon and the estates therein encumbered by the Security Instrument.

12. NO ORAL MODIFICATIONS. This Agreement may not be modified in any manner or terminated except by the an instrument in writing executed by the parties hereto.

13. GOVERNING LAW. This Agreement shall be governed, construed, applied and enforced in accordance with the laws of the state where the Property is

located and the applicable laws of the United States of America.

14. INAPPLICABLE PROVISIONS. If any term, covenant or condition of this Agreement is held to be invalid, illegal or unenforceable in any respect, this Agreement shall be construed without such provision.

15. DUPLICATE ORIGINALS; COUNTERPARTS. This Agreement may be executed in any number of duplicate originals and each duplicate original shall be deemed to be an original. This Agreement may be executed in several counterparts, each of which counterparts shall be deemed an original instrument and all of which together shall constitute a single Agreement. The failure of any party hereto to execute this Agreement, or any counterpart hereof, shall not relieve the other signatories from their obligations hereunder.

16. NUMBER AND GENDER. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

17. TRANSFER OF LOAN. Lender may sell, transfer and deliver the Note and assign the Security Instrument, this Agreement and the other documents executed in connection therewith to one or more Investors (as defined in the Security Instrument) in the secondary mortgage market. In connection with such sale, Lender may retain or assign responsibility for servicing the loan, including the Note, the Security Instrument, this Agreement and the other documents executed in connection therewith, or may delegate some or all of such responsibility and/or obligations to a servicer including, but not limited to, any subservicer or master servicer, on behalf of the Investors. All references to Lender herein shall refer to and include any such servicer to the extent applicable.

18. FURTHER ACTS. Tenant will, at the cost of Tenant, and without expense to Lender, do, execute, acknowledge and deliver all and every such further acts and assurances as Lender shall, from time to time, require, for the better assuring and confirming unto Lender the property and rights hereby intended now or hereafter so to be, or for carrying out the intention or facilitating the performance of the terms of this Agreement or for filing, registering or recording this Agreement, or for complying with all applicable laws.

19. SOLE DISCRETION OF LENDER. Wherever pursuant to this Agreement (a) Lender exercises any right given to it to approve or disapprove, (b) any arrangement or term is to be satisfactory to Lender, or (c) any other decision or determination is to be made by Lender, the decision of Lender to approve or disapprove, all decisions that arrangements or terms are satisfactory or not satisfactory and all other decisions and determinations made by Lender, shall be in the sole and absolute discretion of Lender and shall be final and conclusive, except as may be otherwise expressly and specifically provided herein.

IN WITNESS WHEREOF, Lender and Tenant have duly executed this Agreement as of the date first above written.

LENDER:

TENANT:

By: _____

By: _____

Its: _____

Its: _____

Lots 13, 14, 15 and 16 in Block 67 of Manhattan Beach Division No. 2, in the City of Manhattan Beach, County of Los Angeles, State of California, as per map recorded in Book 1, Pages 95 and 96 of Maps, in the Office of the County Recorder of said County.

EXHIBIT "B"

ESTOPPEL CERTIFICATE

TO: _____

1. The undersigned _____ (Tenant) and _____ (Landlord) entered into a written lease dated _____, in which Landlord leased to Tenant and Tenant leased from Landlord premises in the building located at 228 Manhattan Beach Blvd., Manhattan Beach, CA (Premises). The Premises is part of the parcel of real property described in Lease Article _____ (Real Property). The Lease has been amended, modified, and supplemented as follows: _____. The Lease, as amended, modified and supplemented, is referred in this Certificate as the "Lease."

2. Under the Lease, Tenant has leased the Premises and has paid to Landlord a security deposit of \$ _____. The term of the Lease began on _____ and the expiration date of the Lease is _____, subject to any options to extend identified in Section 3 of this Exhibit. Tenant has paid base rent through _____. The next payment of base rent in the amount of \$ _____ is due on _____. Tenant is required to pay _____% of the direct expenses (as defined in Lease Article _____) for the Real Property, in excess of direct expenses for base year _____.

3. The Lease provides for one (1) option to extend the term of the Lease for five (5) years. The rental rate for the extension term is as follows: _____.

Except as expressly provided in the Lease, Tenant has no right or option to renew or extend the term of the Lease, and no preferential right to purchase all or any part of the Premises or Real Property.

4. There are no oral or written amendments, modifications, or supplements to the Lease except as stated in Section 1 of this Certificate. A true, correct and complete copy of the Lease, including all amendments, modifications, and supplements, is attached to this Certificate. The Lease, as amended, modified and supplemented, is in full force and effect and represents the entire agreement between Landlord and Tenant pertaining to the Premises and the Real Property.

5. All space and improvements leased by Tenant have been completed and furnished in accordance with the provisions of the Lease, and Tenant has accepted and taken possession of the Premises. All contributions required to be paid by Landlord to date for improvements to the Premises have been paid in full.

6. Landlord is not in default in the performance of any of the terms or provisions of the Lease. Tenant is not in default in the performance of any of the terms or provisions of the Lease and has not assigned, transferred, or hypothecated the Lease or any interest in the Lease or subleased all or part of the Premises.

7. There are no setoffs or credits against rent payable under the Lease. No free periods or rental abatements, rebates or concessions have been granted to Tenant.

8. Tenant has no actual or constructive knowledge of any processing,

use, storage, disposal, release, threat of release, generation, or treatment of any hazardous or toxic material or substance on, onto, under, above or from the Premises or the Real Property except as follows: _____

9. There are no pending actions, voluntary or involuntary, under any bankruptcy or insolvency laws of the United States or any state against Tenant or any guarantor of Tenant's obligations under the Lease.

This Certificate is given to (Lender) with the understanding that it or its assignee shall rely on it in connection with the acquisition of the Real Property or the making of a loan secured by the Real Property. Following that (acquisition/loan), Tenant agrees that the Lease shall remain in full force and effect and shall bind and inure to the benefit of the Lender and its successor-in-interest.

LENDER:

TENANT:

By: _____

By: _____

Its: _____

Its: _____

ADDENDUM

Addendum to Industrial Real Estate - Single Tenant Facility Lease ("Lease") by and between Holt/Hawthorne, a California limited partnership and Victory Partners, a California limited partnership, as tenants in common (collectively "Landlord") and Skechers USA, Inc., a California corporation ("Tenant"), dated for reference purposes only April 15, 1998 for the property located at 228 Manhattan Beach Blvd., in the City of Manhattan Beach, County of Los Angeles, State of California (the "Premises"). The terms herein shall have the definitions as set forth in the Lease. The parties intend and agree that the provisions of this Addendum shall supersede any inconsistent or conflicting provisions of the Lease, and are as follows:

16. ASSIGNMENT OF LEASES:

Pursuant to the Assignment of Leases executed concurrently with this Lease by Landlord, Landlord assigns to Tenant and Tenant assumes all rights, obligations and liabilities of the Landlord under the Lease identified in the Assignment of Lease: Laura C. Moore dba ICAAN Galleries (collectively "Subtenant"). Tenant hereby agrees to hold harmless and indemnify Landlord against any and all claims, suits, costs and liability arising out of the assignment to Tenant of the Lease referenced above and in the Assignment of Lease, including but not limited to any breach, default or omission by Tenant in acting as Landlord to Subtenant from and after the Effective Date of this Lease.

17. PERMITTED USES: (See Section 1.06)

Tenant shall use the Premises for general offices purposes. Notwithstanding the foregoing, the space formerly occupied by Subtenant Rachel Gerber dba The Daily Bread (& Bagel), can be used as a retail outlet for baked goods, coffee products and beverages, and the space currently occupied by Subtenant Laura C. Moore dba ICAAN Galleries can be used for an art gallery and retail store.

18. PARKING: (See Section 1.11)

Tenant shall have non-exclusive use of all portions of the parking area with other tenants of building and their customers. If there are no other tenants, Tenant shall have exclusive use thereof.

Only Operable Vehicles shall be allowed in the parking area. Operable Vehicles are vehicles which are in good working order and in a non-derelect or non-vandalized condition. For illustration, vehicles with flat tires, leaks, inoperable engines, or broken windows shall not be allowed in the parking area. Tenant shall use parking spaces for the sole purpose of parking. Unless otherwise instructed, every person using the parking area is required to park and lock his own vehicle. Landlord shall not be responsible for any damage to

vehicles, injury to persons or loss of property.

Tenant is solely responsible for any and all maintenance, upkeep, repairs or replacement of the gate providing access to and from the parking area.

19. EXISTING CONDITIONS: (See Section 6.01)

Section 6.01 of the Lease is augmented as follows:

The Premises are currently being occupied under the terms of Standard Office Lease dated, for reference purposes, January 5, 1994 ("Existing Lease"), and by other tenants, in suites 101, 101B, 102, 103, 105, 201, 305 and 306, whose leases have already or will expire prior to the Effective Date of this Lease. The term of the Existing Lease extends to June 30, 1998. The Existing Lease contains no provision for extension of the term. This Lease has been negotiated to replace the Existing Lease as of the Commencement Date hereof. Except as hereinafter set forth, Landlord is making no representations or warranties concerning the condition of the Premises and/or its compliance with Applicable Laws, and the Premises are delivered to Tenant in an "as is" condition. It is expressly understood and agreed by Tenant that Tenant, at its sole cost and expense, shall make any and all Alterations to the Premises, if necessary, to place it in compliance with the Americans with Disabilities Act and any other law, statute, ordinance or directive concerning or relating to handicapped accessibility in or to the Premises ("Accessibility Laws") and, except as hereinabove set forth, Landlord has made no representations, covenants or warranties concerning the compliance of the Premises with any Accessibility Laws. Any Alterations, Trade Fixtures or Utility Installations shall be at Tenant's sole cost and expense and subject to the provisions in this Lease. It is also expressly understood and agreed by Tenant that any change, modification, repair or alteration to the Premises which is required under any applicable law, ordinance, statute or regulation as a result of

Tenant undertaking any Alterations or Utility Installations shall be made by Tenant, as Tenant's sole cost and expense.

20. LANDLORD'S OBLIGATIONS: (See Section 6.03)

Section 6.03 of the Lease is augmented as follows:

The cost of repair to the roof, if caused by penetration of the roof by Tenant, Tenant's employees, agents or subcontractors, shall be borne solely by Tenant.

Notwithstanding anything to the contrary contained in this Lease, Landlord agrees that it shall, at its expense, within a reasonable period of time following execution of this Lease, repair the HVAC system to certification as fully operational by a subcontractor licensed and qualified in the State of California to provide repair and maintenance services to HVAC systems. With the exception of the repair contemplated in this Section 20, the obligation to maintain and repair the HVAC system, and any and all costs incurred thereby, remain solely with Tenant.

21. ALTERATIONS, ADDITIONS AND IMPROVEMENTS: (See Section 6.05)

Section 6.05(a) is augmented by adding the following:

Prior to beginning any such work, Tenant shall provide Landlord with copies of any and all construction plans and drawings, and any other documents required by Landlord to approve or disapprove Tenant's plans for the alteration or improvement. Tenant shall reimburse Landlord for all costs and expenses (including, without limitation, any architect or engineer fees) incurred by Landlord in approving or disapproving Tenant's plans for alterations or improvements. Landlord's consent shall not be unreasonably withheld.

22. SUBORDINATION, NON-DISTURBANCE, ATTORNMENT: (See Article Eleven)

Sections 11.01 and 11.02 of the Lease are amplified as follows:

Tenant agrees that, upon the written request of Landlord or a Lender in

connection with the sale, financing or refinancing of the Premises, Tenant shall execute a Subordination, Non-Disturbance and Attornment Agreement similar in form and content to the form attached to this Lease as Exhibit "A," and such other documents or provisions reasonably required by Lender or Landlord.

Section 11.04 of the Lease is amplified as follows:

Tenant agrees that, upon the written request of Landlord or a Lender in connection with the sale, financing or refinancing of the Premises, Tenant shall execute an Estoppel Certificate similar in form and content to the form attached to this Lease as Exhibit "B," and such other documents or provisions reasonably required by Lender or Landlord.

23. OPTION TO EXTEND:

Landlord hereby grants to Tenant one (1) option to extend the Original Term for a period of sixty (60) months ("Option Term") commencing on the expiration of the Original Term. The option to extend shall be on the same terms and conditions as the Original Term with the exception of the monthly Base Rent which shall be determined as set forth below, but which in no event shall be less than the Base Rent Payable by Tenant for the last month of the Original Term.

The initial monthly Base Rent payable during the Option Term shall be the current fair market rental for comparable properties within a four (4) mile radius of the Premises or the rent payable for the last month of the Original Term of this Lease, whichever is greater. The "current fair market rental" shall mean the applicable monthly Base Rent for premises leased with terms similar to this Lease, including a term of five (5) years, taking into account all monetary concessions amortized over the Option Term provided that (i) no consideration shall be given to the fact that Landlord is or is not required to pay any or is paying a lower brokerage commission in connection with tenant's exercise of the Option; and (ii) in considering tenant improvements or allowances provided for such comparable space, the value of the existing improvements in the Premises as of the date hereof shall be deducted therefrom (such value to be based upon the age of quality of the improvements and the fact that these improvements are specifically suitable to Tenant).

2

The current fair market rentals shall be mutually determined by the parties. If within thirty (30) days after Tenant gives written notice of its exercise of its option is hereinabove set forth, the parties are unable to agree on the fair market rental, said rental shall be determined by arbitration in the following manner:

(a) Landlord and Tenant shall each appoint, within fifteen (15) days after the thirty (30) day period, one (1) arbitrator who shall, by profession, be an MAI real estate appraiser, and who shall have been active for at least five (5) years in the appraisal of commercial and industrial properties in the area.

(b) The two arbitrators supplied shall agree upon and appoint, within fifteen (15) days of the date of the appointment of the last supplied arbitrator, a third arbitrator who shall be similarly qualified.

(c) The three (3) arbitrators shall reach a decision within thirty (30) days of the appointment of the third arbitrator, and notify Landlord and Tenant thereof.

(d) The decision of the majority of the three (3) arbitrators shall be binding upon Landlord and Tenant. The failure of a majority of said arbitrators to reach an agreement shall result in the fair market rental rate being determined by averaging the appraisal of each arbitrator, ignoring for purposes of such averaging any portion of the high and the low appraisal which is more than ten percent (10%) in excess of or less than the middle appraisal.

(e) If either Landlord or Tenant fails to appoint an arbitrator within the time period set forth in subparagraph (a), above, the arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant.

(f) If the two (2) arbitrators fail to agree upon an appoint a third arbitrator, both arbitrators shall be dismissed and the matter to be decided shall be forthwith submitted to arbitration under the provisions of the American Arbitration Association.

(g) All costs of arbitration shall be paid by Landlord and Tenant equally.

(h) If the initial Base Rent is not determined prior to the commencement of the Option Term, Tenant shall pay monthly Base Rent to Landlord in an amount equal to the Base Rent payable by Tenant for the last month of the Original Term of this Lease, and within ten (10) days after the determination of the initial Base Rent for the Option Term, Tenant shall pay to Landlord any underpayment of Base Rent.

Commencing month thirteen (13) of the Option Term and annually on the same month thereafter, the monthly Base Rent shall be increased by an amount equal to the monthly Base Rent payable during the month immediately preceding the increase times the percentage increase in the "Consumer Price Index for All Urban Consumers, All Items, Los Angeles, Long Beach, Riverside, 1982-1984 = 100" (the "Index"). The increase in the Index is determined by taking the index for the month immediately preceding the month the increase is to take effect, and dividing it by the base Index figure which is the figure for the same month for the previous year. The Base Rent shall be increased by the proportion so determined. In no event, however, shall the monthly Base Rent be decreased from that payable for the month immediately preceding the increase.

Should the United States Department of Labor readjust the above described Consumer Price Index, then such change shall be taken into account and reflected in all adjustments. Should the official reports of the United States Labor Department be unavailable for the relevant period at the time that any adjustment hereunder it to become effective, Tenant shall pay the unadjusted rental until the statistical information for the adjustment is available, and within ten (10) days from written notice by Landlord to Tenant of the adjustment, Tenant shall pay to Landlord the adjusted amount of the rent due and payable.

If the described Index shall no longer be published, another Index generally recognized as authoritative shall be substituted by agreement of the parties. If they are unable to agree within thirty(30) days after demand by either party, the substitute index shall, on the application of either party, be selected by the chief officer of the San Francisco Regional Office of the Bureau of Labor Statistics or its successor if selection by such officer, cannot be obtained, the adjustment shall be made by mutual agreement or by arbitration under the provision of the American Arbitration Association.

24. HAZARDOUS MATERIALS: (See Section 5.03)

Section 5.03 of the Lease is augmented as follows:

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If Tenant knows, or has reasonable cause to believe, that a Hazardous Material has come to be located in, on, under or about the Premises, other than as previously consented to by Landlord, Tenant shall immediately give written notice of such fact to Landlord, and provide Landlord with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Material.

Tenant shall promptly, at Tenant's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Tenant, or pertaining to or involving any Hazardous Material brought onto the Premises during the term of this Lease, by or for Tenant, its agents, employees, or contractors.

Tenant shall indemnify, defend and hold Landlord, its agents, employees and lenders, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and

consultants' fees arising out of or involving any Hazardous Material brought onto the Premises by or for Tenant, its agents, employees, or contractors.

25. SECURITY DEPOSIT:

Section 1.10 of the Lease is augmented as follows:

Landlord is holding for the benefit of Tenant a security deposit of \$33,334.25, which will be applied in satisfaction of the Security Deposit required under this Lease.

SEE ADDITIONAL PROVISIONS ATTACHED HERETO.

LANDLORD:

TENANT:

Holt/Hawthorne, a California limited partnership Skechers USA, Inc., a California corporation

By: [SIGNATURE ILLEGIBLE] By: /s/ DAVID WEINBERG

Its: GENERAL PARTNER Its: CFO

Victory Partners, a California limited partnership

By: [SIGNATURE ILLEGIBLE]

Its: GENERAL PARTNER

ADDENDUM TO INDUSTRIAL REAL ESTATE LEASE
BY AND BETWEEN
VICTORY PARTNERS; HOLT/HAWTHORN ("LANDLORD")
AND SKECHERS U.S.A., INC. ("TENANT")
RE: 228 MANHATTAN BEACH BLVD., MANHATTAN BEACH, CALIFORNIA
("PROPERTY")

This Addendum is attached to and made a part of the Industrial Real Estate Lease by and between the above-named Landlord and Tenant (the "Lease").

26. COMPLIANCE WITH COVENANTS, RESTRICTIONS AND REQUIREMENTS. Landlord represents to Tenant that it is the owner of the Property and that to the best of Landlord's knowledge the Property complies with all applicable covenants, conditions and restrictions of record and applicable building codes, regulating statutes, ordinances and Laws in effect on the Commencement Date of the Lease; provided, that such representation does not apply to the use to which Tenant will put the Property or to any alterations to be made by Tenant. To the extent that the Property is required to be altered or repaired as a result of its non-compliance with applicable covenants, conditions and restrictions of record or applicable building codes, regulating statutes, ordinances or Laws in effect on the Commencement Date of the Lease (and such noncompliance does not arise from uses to which Tenant has put the Property or to any alterations made by Tenant), then the cost of such alterations and repairs shall be paid as follows: Tenant shall pay the initial Ten Thousand Dollars (\$10,000.00) and Landlord shall pay the remainder. The person signing this Lease for Landlord represents that he/she has full power and authority to do so.

27. HAZARDOUS MATERIAL LIABILITY. Tenant shall not have any liability for, (i) any Hazardous Materials brought onto the Property or the land of which they are located ("Land") prior to the Commencement Date, unless Tenant, its agents, employees or contractors brought them ("Pre-Commencement Hazardous Material Conditions"), or (ii) any effects arising out of or caused by any such Pre-Commencement Hazardous Material Condition, including, without limitation, any contamination or injury to person, property or the environment or any

liabilities or costs associated with the investigation, removal, remediation, restoration and/or abatement thereof, or of any actual or suspected contamination therein involved, regardless of whether the effects of such Pre-Commencement Hazardous Material Condition are known as of the Commencement Date or arise and/or are discovered at any time after the Commencement Date. All liabilities relating to any Hazardous Materials which are created or brought onto the Property from and after the Commencement Date by persons, entities or instrumentalities other than Tenant or its agents, employees, invitees, licensees, subtenants and contractors shall not be the responsibility of Tenant.

Landlord hereby represents and warrants to Tenant that Landlord has not received any written notice of any Hazardous Material contamination on or in the Property or the Land requiring or ordering any investigation to be taken pursuant to a state or federal environmental response or remediation statute.

Landlord shall indemnify and save Tenant, its officers, directors, employees, visitors, contractors, agents and representatives harmless against and from any and all claims, demands, losses, costs, fines and liability, including all attorneys' fees, arising out of any Hazardous Material contamination of the Property or Land caused by Landlord, its agents, employees or contractors. This indemnification shall not include or cover any claim, demand, loss, cost, fine or liability, including any attorneys' fees, arising out of any Hazardous Material contamination caused by Tenant, its agents, employees, invitees, licensees, subtenants or contractors.

28. MUTUAL INDEMNIFICATION. Tenant agrees to defend, with counsel reasonably satisfactory to Landlord, indemnify and hold harmless, Landlord, its agents, employees, officers, directors, shareholders, partners, members and representatives (collectively "Landlord") from and

Landlord's Initials: /s/ [Initials Illegible]

Tenant's Initials: /s/ [Initials Illegible]

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

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

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

29. WAIVER OF SUBROGATION. Without affecting any other rights or remedies, Tenant and Landlord ("Waiving Party") each hereby releases and relieves the other, and waives their entire right to recover damages (whether in contract or in tort) against the other, for loss of or damage to the Waiving Party's property arising out of or incident to the perils required to be insured against under Section 4.04. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductible applicable thereto. If insurance policies cannot be obtained with a waiver of subrogation, the parties are relieved of the obligation to obtain such a waiver hereunder.

30. NON-DISTURBANCE. Landlord agrees to cooperate with Tenant and to use good faith efforts to assist Tenant in obtaining a non-disturbance agreement from any current or future mortgagee or ground lessor of the Property. Nothing contained herein shall be construed as a promise or guaranty on the part of Landlord that Tenant shall in fact be able to obtain such a non-disturbance agreement.

31. TENANT'S COMPLIANCE WITH LAW. Anything in this Lease to the contrary notwithstanding, in the event of a change in an applicable law that requires Tenant to make any alterations, repairs or restorations to the Property, and the costs and expenses with regard to such alterations, maintenance or restoration are in excess of Seventy-five Thousand Dollars (\$75,000) and if the nature of the required alterations, repairs or restorations is such that Tenant cannot use twenty-five percent (25%) or more of the Premises for their intended purpose, and Landlord is unwilling to make such alterations, repairs or restorations, then Tenant shall have the right to terminate this Lease on sixty (60) days written notice to Landlord. If the nature of the alterations, repairs or restorations is such that less than twenty-five percent (25%) of the Premises is not usable, and Landlord is unwilling to make such alterations, repairs or restorations, Tenant shall not have the right to terminate the Lease, but rent shall be equitably abated effective as of the date of such limited use to take into account the loss of the unusable portion of the Premises.

Landlord's Initials: /s/ [Initials Illegible]

Tenant's Initials: /s/ [Initials Illegible]

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32. RENT ABATEMENT. In the event that Tenant is unable to use all or part of the Property as a result of fire, flood, vandalism, act of God or other casualty, or as a result of the negligence or wilful misconduct of Landlord, its agents or employees, then Tenant shall be entitled to an equitable abatement of its base and additional rent hereunder in proportion to the degree the Property is rendered unusable; provided, however, Tenant shall be entitled to no such rent abatement for inability to use the Property resulting from the negligence or willful misconduct of Tenant its agents or employees. Additionally, in the event Landlord recovers proceeds under any rental loss insurance resulting from Tenant's inability to use the Property, then Tenant's rent due hereunder shall abate to the extent of Landlord's recovery. If Tenant has paid said rent to Landlord prior to Landlord's recovery, then Landlord shall reimburse Tenant within thirty (30) days of its receipt of said insurance proceeds, or of Tenant's demand therefor.

33. Real Estate Taxes. If any general or special assessment is levied and assessed against the Property and Landlord can elect to either pay the assessment in full or allow the assessment to go to bond, then if Landlord pays the assessment in full, Tenant shall pay to Landlord each time a payment of real property taxes is made a sum equal to that which would have been payable (as both principal and interest) had Landlord allowed the assessment to go to bond. Additionally, notwithstanding the provisions of Section 4.02, Real Property Taxes shall not include any inheritance, estate, succession, transfer, gift, franchise, corporation, income or profit tax or capital levy that may be imposed upon Landlord, but shall include any increased assessment arising from change of ownership.

34. NOTICES. In addition to the service requirement for notices called for herein, whenever Landlord is required to provide Tenant with a notice of default or a breach of any provision of this Lease, Landlord agrees to serve an additional copy of said notice upon Tenant's home office and Tenant's counsel by facsimile transmission as follows:

Skechers USA, Inc.
Attention: Roger Moss/Mark Nason
Facsimile: (310) 318-5019

Baker, Burton & Lundy, P.C.
Attention: Kent Burton
Facsimile: (310) 376-7483

Service shall be deemed completed upon confirmation of transmission. Said facsimile numbers may be changed by Tenant by providing written notice thereof to Landlord.

35. LANDLORD REPAIRS. Whenever Landlord is required to make repairs to the Property, Landlord agrees to use good faith efforts to cause a minimum of interference to Tenant's operation of its business from the Property.

36. CONDEMNATION. Notwithstanding the provisions of ARTICLE 8, any award for the taking of all or any part of the Property under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Landlord, except that Tenant shall be entitled to any compensation separately awarded to Tenant for Tenant's relocation expenses, the depreciated value of Tenant's alterations, additions and improvements and for loss of Tenant's equipment or business.

37. ASSIGNMENT.

A. Notwithstanding the provisions of ARTICLE 9, no consent from Landlord shall be required for the assignment of this Lease under the following circumstances, each of which shall be considered a "Permitted Assignment":

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

Landlord's Initials: /s/ [Initials Illegible]

Tenant's Initials: /s/ [Initials Illegible]

3

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

B. Additionally, during the term hereof, Tenant shall have the ability to sublet any of the suites or offices to a subtenant with Landlord's prior written consent, which shall not be unreasonably withheld or denied, provided that the following provisions are met:

(i) the subtenant agrees to assume all relevant obligations of Tenant hereunder, as to its particular suite location;

(ii) irrespective of said sublease, Tenant shall remain fully liable for all obligations hereunder, and said sublease shall not serve to release Tenant from any of such obligations;

(iii) the subleases are entered into on an arm's-length basis, with tenants of reasonable financial stability and credit-worthiness, and at fair market rents; and

(iv) the subtenant agrees to comply with all Hazardous Material provisions of the Lease, as amended.

38. ESTOPPEL. At any time and from time to time, either party, upon request of the other party, will execute, acknowledge and deliver an instrument, stating, if the same be true, that this Lease is a true and exact copy of the Lease between the parties hereto, that there are no amendments hereto (or stating what amendments there may be), that the Lease is then in full force and effect and that, to the best of its knowledge, there are no offsets, defenses or counterclaims with respect to the payment of rent reserved hereunder or in the performance of the other terms, covenants and conditions hereof on the part of Tenant or Landlord, as the case may be, to be performed under this Lease, and that as of such date no default has been declared hereunder by either party or

if a default has been declared, such instrument shall specify same. Such instrument will be executed by the other party and delivered to the requesting party within fifteen (15) days of receipt.

39. TENANT'S PROPERTY. Tenant shall retain title to, and shall have the opportunity to remove, upon termination of this Lease, all of Tenant's displays, signage and shelving, and Tenant's lighting, sound, alarm and communication systems, provided that Tenant shall repair any damages caused by the removal thereof, at its sole expense.

40. CONSENTS. Whenever Landlord's consent is called for herein, such consent shall not be unreasonably withheld.

41. SECURITY DEPOSIT. Tenant shall be entitled to apply the security deposit to the next due installment(s) of rent in the event of the occurrence of any of the following events: (i) the making by Landlord of any general arrangement or assignment for the benefit of creditors; or (ii) Landlord's becoming a "debtor" as defined in 11 USC Section 101 or any successor statute thereto (unless, in the case of a petition filed against Landlord, same is dismissed within 60 days).

LANDLORD:

TENANT:

Holt/Hawthorne, a California Limited Partnership

Skechers USA Inc., a California Corporation

By: [SIGNATURE ILLEGIBLE]

By: /s/ DAVID WEINBERG

Its: GENERAL PARTNER

Its: CFO

Victory Partners, a California limited partnership

By: [SIGNATURE ILLEGIBLE]

Its: GENERAL PARTNER

EXHIBIT 10.17

THIS LEASE, dated this 11th day of JUNE, 1998 by and between DOLORES L. MC NABB (hereinafter "Landlord"), and SKECHERS USA, INC. a California Corporation (hereinafter "Tenant").

WITNESSETH:

ARTICLE 1. PREMISES LEASED.

In consideration of the rent and other charges herein specified to be paid and the covenants and conditions to be observed and performed by Tenant, Landlord does hereby lease to Tenant and Tenant does hereby lease from Landlord those premises hereinafter referred to as "said premises," within the office building commonly known and designated as Office #3 on the 1st floor of the North Building and Office #9 on the 1st floor of the South Building, 904 Manhattan Avenue, Manhattan Beach California.

ARTICLE 2. TERM OF LEASE AND DELIVERY OF PREMISES.

The term of this Lease shall be for Five (5) years commencing on the 1st day of July, 1998, and ending on the 30 day of June 2003. OPTIONS TO EXTEND -- See Paragraph A on Exhibit "A" attached hereto.

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

ARTICLE 3. RENT.

See Exhibit "A"

ARTICLE 4. USE.

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

A. No use shall be made or permitted of said premises or any part thereof, nor acts done which shall constitute a nuisance or unreasonable annoyance to other tenants in the office park complex nor which shall violate, make inoperative or increase the existing rate of any insurance policy held by or for the benefit of Landlord.

B. Tenant shall at all times comply with all governmental rules, regulations, ordinances, statutes and laws now in force or which may hereafter be enforced pertaining to said premises and to Tenant's use thereof, and a finding of guilty by a competent court for any violation thereof shall be conclusively deemed a default under this paragraph.

ARTICLE 5. LANDLORD SERVICES.

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

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

B. Electric current for ordinary lighting requirements and for ordinary business appliances such as typewriters and adding machines. Landlord shall not be required to furnish electrical power to operate electrical motors of larger than fractional horsepower. Landlord shall make additional charges for service if Tenant has greater than normal requirements for such services.

C. Tenant shall pay for all water, gas, electricity, light, power and other utilities supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Tenant, Tenant shall pay a reasonable proportion to be determined by Landlord of all charges jointly metered with other premises.

Replacement of fluorescent tubes in the standard lighting fixtures installed in the premises by Landlord shall be provided as required and billed to Tenant.

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

ARTICLE 6. PARKING. SEE EXHIBIT "A"

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

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

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

ARTICLE 7. ALTERATIONS AND REPAIRS.

Tenant shall not make or suffer to be made any alterations, additions or improvements to or of said premises or any part thereof without the written

consent of Landlord first had and obtained and any alterations, additions or improvements to or of said premises, except movable furniture and trade fixtures, shall at once become a part of the realty and belong to Landlord. In the event Landlord consents to the making of any alteration, additions or improvements to said premises by Tenant, the same shall be made by Tenant at Tenant's sole cost and expense and any contractor or person selected by Tenant to make the same must first be approved of in writing by Landlord. Upon the expiration or sooner termination of the term, Tenant shall, upon demand by Landlord, at Tenant's sole cost and expense, forthwith and with all due diligence remove any alterations, additions or improvements made by Tenant, designated by Landlord to be removed, and Tenant shall forthwith and with all due diligence at its sole cost and expense, repair any damage caused by such removal.

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

SEE EXHIBIT "A"

ARTICLE 8. CHANGES OR ALTERATIONS BY LANDLORD.

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

ARTICLE 9. LANDLORD'S NONLIABILITY.

Landlord shall not be liable for any loss or damage to the goods, wares, merchandise and other property of Tenant in, upon or about said premises or for any injury to the person (including death) of Tenant or its employees, agents subtenants or invitees or other persons, caused by any use thereof, or arising from any accident or fire or other casualty thereon or from any other cause whatsoever, unless caused by Landlord's negligence, nor shall Landlord be liable for any such loss, damage or injury occurring anywhere in the office park complex and caused by the act or neglect of Tenant, its agents or employees; and Tenant hereby waives on its behalf all claims against Landlord for any such loss or injury and hereby agrees to indemnify and save Landlord harmless from all liability for any such loss, damage or injury and in the event action is brought against Landlord on account of such loss, damage or liability and Landlord elects not to accept Tenant's proffered defense of such action, Tenant shall nevertheless pay the cost of Landlord's reasonable attorney's fees incurred in connection therewith.

ARTICLE 10. INSURANCE.

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

Tenant agrees to maintain statutory Workmen's Compensation Insurance and comprehensive public liability insurance with the following minimum limits: combined single limit coverage of not less than \$1,000,000 with respect

to personal injury, death or property damage resulting from any one occurrence; the minimum limits shall not, however, limit the liability of Tenant hereunder.

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

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

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

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

ARTICLE 11. ASSIGNMENT AND SUBLETTING.

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

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

ARTICLE 12. RIGHT OF ENTRY.

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

premises, and any entry to the premises obtained by Landlord by any of said means, or otherwise, shall not under any circumstances, be construed or deemed to be a forcible or unlawful entry into, or a detainer of, said premises, or an eviction of Tenant from said premises or any portion thereof.

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ARTICLE 13. BANKRUPTCY-INSOLVENCY.

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

ARTICLE 14. LIENS.

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

ARTICLE 15. LANDLORD PAYING CLAIMS.

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

ARTICLE 16. DESTRUCTION OF PREMISES.

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

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

2) In the event of partial destruction of the building to an extent not exceeding 25% of the full insurable value thereof and if the damage thereto is such that the building may be repaired, reconstructed or restored within a period of 90 days from the date of the happening of such casualty and Landlord will receive insurance proceeds sufficient to cover the costs of such repairs, Landlord shall commence and proceed diligently with the work of repair, reconstruction and restoration and the Lease shall continue in full force and effect; or if such work

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of repair, reconstruction and restoration is such as to require a period longer than 90 days or exceed 25% of the full insurable value thereof, or if said insurance proceeds will not be sufficient to cover the cost of such repairs, Landlord may either elect to so repair, reconstruct and restore and the Lease shall continue in full force and effect, or Landlord may elect not to repair, reconstruct and restore and the Lease shall in such event terminate. Under any of the conditions of this subparagraph, Landlord shall give written notice to Tenant of its intention within the period of 90 days. In the event Landlord elects not to restore said building, this Lease shall be deemed to have terminated as of the date of such partial destruction.

B. Upon any termination of this Lease under any of the provisions of this Article, the parties shall be released thereby without further obligation to the other coincident with the surrender of possession of the premises to Landlord except for items which have theretofore accrued and are then unpaid.

C. In the event of repair, reconstruction and restoration as herein provided, the rental provided to be paid under this Lease shall be abated proportionately in the ratio which the Tenant's use of said premises is impaired during the period of such repair, reconstruction or restoration. Tenant shall not be entitled to any compensation or damages for loss in the use of the whole or any part of said premises and/or any inconvenience or annoyance occasioned by any such damage, repair, reconstruction or restoration.

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

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

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

ARTICLE 17. LATE PAYMENTS.

SEE EXHIBIT "A"

ARTICLE 18. REMEDIES.

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

A. The right of Landlord to declare the term hereof ended and to re-enter said premises and take possession thereof and remove all persons therefrom, and Tenant shall have no further claim thereon or thereunder; or

B. The right of Landlord, even though it may have brought an action to collect rent and other charges without terminating this Lease, to thereafter elect to terminate this Lease and all of the rights of Tenant in or to said premises; or

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

Should Landlord elect to terminate this Lease, Landlord shall be entitled to recover from the Tenant as damages: (i) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss for the same period that Tenant proves could be reasonably avoided, (ii) the cost of recovering said premises to the condition required in the Article entitled "Removal" and (iii) such other amounts as are provided for in Section 1951.2 of the California Civil Code.

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

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

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

ARTICLE 19. SECURITY DEPOSIT.

Tenant has deposited with Landlord the sum in the attached Exhibit "A" as security for the full performance of the provisions of this Lease. If Tenant defaults in any particular, Landlord may use or retain the whole or any part of the security in lieu of any sum due to Landlord including repair of damages or cleaning of the premises upon termination, or to defray any expense or damage reasonably incurred by reason of the default, and Tenant shall on demand pay to Landlord a like sum as additional security. If Tenant is not in default at the termination of this Lease, Landlord shall return the deposit to Tenant and may do this by either paying this sum to Tenant or crediting it against the last payment(s) of rent. Landlord's obligation respecting the deposit is that of a debtor, not a trustee; the fund may be commingled or dissipated, or both, and no interest shall accrue thereon.

ARTICLE 20. ATTORNEY'S FEES.

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

ARTICLE 21. REMOVAL.

A. Personal Property. Upon the expiration of the Term of this Lease, or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the said premises to Landlord in the same condition as upon delivery of possession to Tenant hereunder, reasonable wear and tear and damage by fire, acts of God, the elements and unavoidable casualty excepted. Before surrendering possession of said premises as aforesaid, Tenant shall, without expense to Landlord, remove or cause to be removed from said premises all signs, furnishings, equipment, trade fixtures, merchandise and other personal property placed therein, and all rubbish and debris, and Tenant shall repair all damage to said premises resulting from such removal. If requested by Landlord, Tenant shall

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execute, acknowledge and deliver to Landlord an instrument in writing releasing and quitclaiming to Landlord all right, title and interest of Tenant in and to said premises by reason of this Lease or otherwise. If Tenant fails to remove any of its signs, furnishings, equipment, trade fixtures, merchandise, or other personal property within 10 days after the expiration or termination of this Lease, then Landlord may, at its sole option (i) treat Tenant as a holdover, in which event the provisions of the Article of this Lease regarding Holding Over shall apply; (ii) deem any or all of such items abandoned and the sole property of Landlord, or (iii) remove any or all of such items and dispose of same in any manner or store same for Tenant, in which event the expense of such disposition or storage shall be borne by Tenant and shall be immediately due and payable.

B. Fixtures, Equipment and Improvements. All fixtures, equipment, improvements and appurtenances attached to or built into said premises prior to or during the Term, whether by Landlord at its expense or at the expense of Tenant or both, shall be and remain part of said premises and shall not be removed by Tenant at the end of the Term unless otherwise expressly provided for in this Lease. Such fixtures, equipment, improvements and appurtenances shall include but not be limited to: all floor coverings, drapes, paneling, molding, doors, vaults (exclusive of vault doors), plumbing systems, electrical systems, lighting systems, cooling systems, ventilating systems, sprinkling systems, silencing equipment, communication systems, all fixtures and outlets for the systems mentioned above and for all telephone, radio, telegraph and television purposes, and any special flooring or ceiling installations.

ARTICLE 22. PAYMENTS AND NOTICES.

A. Payment of Rent. The rent specified herein shall be paid to Landlord or such other person or persons or at such other address or addresses as Landlord hereafter may designate by written notice to Tenant. Payment of rent to any person or persons so designated by Landlord shall exonerate Tenant from all responsibility therefor or for the proper distribution thereof.

B. Notices. Any notice or demands which may or must be given by either party to the other hereunder shall be deemed to have been duly given when made by personal service or in writing and deposited for mailing by United States mail, postage prepaid, addressed as follows or to such other place as the parties may hereafter in writing direct:

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

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

ARTICLE 23. EMINENT DOMAIN.

A. Definition of terms. The term "total taking" as used in this Article means the taking of the entire premises under the power of eminent domain or a taking of so much of said premises as to prevent or substantially impair the conduct of Tenant's business therein. The term "partial taking" means the taking of a portion only of said premises which does not constitute a total taking as above defined.

B. Total Taking. If during the term hereof, there shall be a total taking by public authority under the power of eminent domain, then the leasehold estate of Tenant in and to said premises shall cease and terminate as of the date actual physical possession thereof shall be so taken.

C. Partial Taking. If during said term there shall be a partial taking of said premises, this Lease shall terminate as to the portion of said premises taken upon the date upon which actual possession of said premises is taken pursuant to said eminent domain proceedings, but said Lease shall continue in force and effect as to the remainder of said premises. The minimum guaranteed rental payable by Tenant for the balance of said term shall be abated in the ratio that the square footage of floor area of said premises taken bears to the total floor area of said premises at the time of such taking.

D. Taking of Parking Area. In the event that there shall be a taking of the parking area such that Landlord can no longer comply with applicable municipal parking ordinances or similar regulations of other public agencies,

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Landlord may substitute therefor reasonably equivalent parking in a location reasonably close to said premises; provided that if Landlord fails to make such substitution within a reasonable time following such taking, Tenant may, at its option, terminate this Lease by notice to Landlord. If this Lease is not so terminated by Tenant, there shall be no reduction, change or abatement of any rent or other charge payable by Tenant hereunder and this Lease shall continue in full force and effect.

E. Allocation of Award. All compensation and damages awarded for the taking of said premises, or any portion or portions thereof, shall, except as otherwise herein provided, belong to and be the sole property of Landlord, and Tenant shall not have any claim or be entitled to any award for the diminution in value of its leasehold hereunder or for the value of any unexpired term of this Lease; provided, however, Tenant shall be entitled to any award that may be made for the taking of or injury to or on account of any cost or loss Tenant may sustain in the removal of Tenant's merchandise, fixtures, equipment and furnishings.

F. Effect of Termination. If this Lease is terminated, in whole or in part, pursuant to any of the provisions of this Article, all rentals and other charges payable by Tenant to Landlord hereunder and attributable to the premises taken, shall be paid up to the date upon which actual physical possession shall be taken by the condemnor, and the parties shall thereupon be released from all further liability in relation thereto.

G. Voluntary Sales. A voluntary sale by Landlord to any public body or agency having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed to be a taking under the power of eminent domain for the purposes of this Article.

ARTICLE 24. HOLDING OVER.

This Lease shall terminate and become null and void without further notice upon the expiration of the Term herein specified, and any holding over by Tenant after such expiration shall not constitute a renewal hereof, or give Tenant any rights under this Lease, except as otherwise herein provided, it being understood and agreed that this Lease cannot be renewed, extended or in any manner modified except in writing signed by both parties hereto; provided, however, that nothing in this Article shall be construed to alter or impair the provisions of Article 21 hereof. If Tenant shall hold over for any period after the expiration of said Term, Landlord may, at its option, exercised by written notice to Tenant, treat Tenant as a tenant from month-to-month commencing on the 1st day following the expiration of this Lease and subject to the terms and conditions herein contained except that the Basic Rental portion of the monthly rental, which shall be payable in advance, shall be 150% of said Basic Rental applicable to the date of expiration. If Tenant fails to surrender the premises upon the expiration of this Lease despite demand to do so by Landlord, Tenant shall indemnify and hold Landlord harmless from all loss or liability, including without limitation, any claims made by any succeeding Tenant founded on or resulting from such failure to surrender.

ARTICLE 25. SUBORDINATION AND STATEMENT OF TENANT.

The rights of Tenant under this Lease are and shall be subject to and subordinate to all present and future ground or underlying Leases and amendments thereto, the declaration and recording of covenants, conditions and restrictions relating to the office complex and operation thereof, and the lien of any mortgage and/or any deed of trust or other encumbrance which now

exists or may hereafter affect said premises together with all renewals, modifications, consolidations, replacements or extensions thereof; Tenant covenants and agrees that it will execute without further consideration any and all instruments desired by Landlord subordinating in the manner requested by Landlord this Lease; provided that any lienor or encumbrancer relying on such subordination or such additional agreements will covenant with Tenant that this Lease shall remain in full force and effect, and Tenant shall not be disturbed in the event of sale or foreclosure so long as Tenant is not in default hereunder. Tenant agrees to attorn to the successor in interest of Landlord following any transfer of such interest either voluntarily or by operation of law and to recognize such successor as Landlord under this Lease. However, if Landlord so elects, this Lease shall be deemed prior in lien to any mortgage, deed of trust or other encumbrance upon or including the premises regardless of date of recording and Tenant will execute a statement in writing to such effect at Landlord's request. Landlord is hereby irrevocably appointed and authorized as agent and attorney-in-fact of Tenant to execute all

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subordination instruments in the event Tenant fails to execute said instruments within five (5) days after notice from Landlord demanding the execution thereof.

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

ARTICLE 26. TRANSFER BY LANDLORD.

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

ARTICLE 27. MODIFICATIONS FOR LENDER.

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

ARTICLE 28. INABILITY TO PERFORM.

This Lease and the obligations of Tenant to pay rent hereunder and to keep, observe and perform all of the other terms, covenants, conditions, provisions and agreements of this Lease on the part of Tenant to be kept, observed or performed shall in no way be affected, impaired or excused because Landlord is unable to fulfill any of its obligations under this Lease or to supply, or is delayed in supplying any service expressly or impliedly to be

supplied or is unable to supply, or is delayed in supplying any equipment or fixtures, if Landlord is prevented or delayed from doing so by reason of strike or labor troubles, unavailability of materials or any other cause beyond the control of Landlord.

ARTICLE 29. SURRENDER OR CANCELLATION.

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

ARTICLE 30. RULES OR REGULATIONS.

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

ARTICLE 31. SCOPE AND AMENDMENT.

This Lease is and shall be considered to be the only agreement between the parties hereto. All negotiations and

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oral agreements acceptable to both parties are included herein. No amendment or other modification of this Lease shall be effective unless in writing.

ARTICLE 32. SAFETY AND HEALTH.

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

ARTICLE 33. MISCELLANEOUS.

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

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

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

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

SKECHERS USA, INC., a California corp.

By /s/ DOLORES L. MCNABB By /s/ ROGER A. MOSS

By DOLORES L. MCNABB By ROGER A. MOSS

Date June 11, 1998 Date June 11, 1998

Address: P.O. BOX 10001 Address: 228 Manhattan Beach Boulevard

TORRANCE, CA 90505 Manhattan Beach, CA 90266
Attn: Real Estate Department

"Landlord" "Tenant"

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

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

-11-
ADDENDUM TO LEASE

FOR PREMISES COMMONLY KNOWN AND DESIGNATED AS:

OFFICE #3, FIRST FLOOR OF THE NORTH BUILDING
OFFICE #9, FIRST FLOOR OF THE SOUTH BUILDING
904 MANHATTAN AVENUE
MANHATTAN BEACH, CALIFORNIA

This Addendum to Lease executed on June 11, 1998 by and between DOLORES MCNABB, as Landlord, and SKECHERS USA, INC., as Tenant, is an integral part of said Lease as if fully set forth therein.

A. OPTION TO EXTEND LEASE TERM.

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

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

B. RENT.

Tenant shall pay to Landlord rent, free from all claims, demands or set-offs against Landlord of any kind or character whatsoever, except as otherwise expressly provided to the contrary, in advance, in the amount of \$430,040.04, payable on the first day of each month as follows:

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July 1, 1998 to June 30, 1999	\$6,750.00 per month
July 1, 1999 to June 30, 2000	\$6,952.50 per month
July 1, 2000 to June 30, 2001	\$7,161.08 per month
July 1, 2001 to June 30, 2002	\$7,375.91 per month
July 1, 2002 to June 30, 2003	\$7,597.18 per month

</TABLE>

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

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

C. USE.

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

D. REAL ESTATE TAXES - OPTION PERIODS.

Upon the exercise of the options hereinabove provided for, Tenant agrees to pay during the term of each such option period, or periods, as the case may be, its pro rata share of any increase in real estate taxes and assessments levied or imposed against the real property of which the demised premises are a part over and above the taxes imposed on said real property during the fifth year of the original term of this Lease (the base year). The parties hereto acknowledge and agree that Tenant occupies approximately 40% of the building and agree that for purposes of this provision that Tenant shall pay 40% of any such increase. Landlord shall provide Tenant with a copy of the tax bill for the fifth year (the base year) of the initial term along with a copy of the tax bill for each year during any option period that Tenant continues in possession under this Lease. Tenant shall pay to Landlord one half of its pro rata share (40%) of such increase on or before December 10 of each year and the remaining on half of its pro rata share (40%) on or before April 10 of each year.

E. AIR CONDITIONING REPAIR AND MAINTENANCE.

Landlord has provided an air conditioner for Office #9 on the first floor of the south building and an air conditioner that services both Office #3 on the first floor of the north building and the space occupied by Optical Outlet. Tenant hereby agrees that it will pay any and all costs related to the repair and maintenance of both of said air conditioners. Further, the parties acknowledge that the air conditioner servicing Office #9 is on the electrical meter for that office and Tenant shall pay for such electrical. The air conditioner servicing Office #3 and Optical Outlet is on Landlord's house meter. Further, the gas servicing said Office #3 is not separately metered. The parties hereby agree that a reasonable estimate of the monthly electrical and gas costs for Office #3 is \$175.000. Tenant hereby agrees to pay to Landlord \$175.00 per month as reimbursement for such costs. Each year during the term of this Lease, such monthly amount shall be increased by 3% to reflect the anticipated general increase in costs. In the event electrical costs are increased substantially for any reason that makes the above sum unrealistic, as increased annually, the parties agree such sum shall be increased in an amount that reflects such substantial increase in such costs. Tenant may, at its discretion, elect to install separate meters for the gas and electric, at its sole and exclusive expense, and pay the utility costs for Office #3 directly. Tenant acknowledges that concurrent with the installation of the electrical meter, it would also have to install a separate air conditioner in order to isolate the expenses to said Office #3.

Air conditioning to Office #3 shall be provided between the hours of 7:30 A.M. and 5:30 P.M. Monday through Friday of each week.

F. SECURITY DEPOSIT.

Tenant shall pay Landlord on execution of this Lease the sum of \$10,000.00 as a security deposit in accordance with the provisions of Paragraph 19 of the Lease.

G. PARKING.

Landlord hereby grants to Tenant the exclusive use of three (3) parking, the location of which will be designated by Landlord.

H. RULES AND REGULATIONS.

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

I. ASSIGNMENT.

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

- (1) the transfer of stock of Tenant to members of the immediate family of a shareholder of Tenant, to a living trust for estate-planning purposes, or by will or intestacy; or,
- (2) Tenant sells or offers for sale its voting stock to the public in accordance with the qualifications or registration requirements of the State of California and the Security Act of 1933, as amended.

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

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

I. MUTUAL INDEMNIFICATION

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

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

Notwithstanding the foregoing, however, because Landlord is required to maintain property insurance on the Building, and because of the existence of

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

LANDLORD TENANT
DOLORES MCNABB SKECHERS USA, INC.,
 a California corporation

/s/ DOLORES MCNABB by /s/ ROGER A. MOSS
----- -----

by Roger A. Moss

RULES AND REGULATIONS

1

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

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

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

2

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

3

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

4

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

5

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

6

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

7

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

8

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

9

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

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10

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

11

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

12

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

13

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

improper, objectionable or immoral purposes.

14

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

15

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

16

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

17

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

18

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

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19

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

20

Landlord reserves the right to exclude or expel from the office park complex any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations.

21

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

22

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

23

The parking areas within the office complex shall be used solely for passenger type vehicles during normal office hours and the parking of trucks, trailers, recreational vehicles and campers is specifically prohibited. No vehicle of any type shall be stored within the parking area at any time. In the event that a vehicle is disabled, it shall be removed within 48 hours. There shall be no "For Sale" or other advertising signs on or about any parked vehicle. All vehicles shall be parked in the designated parking areas in conformance with all signs and other markings.

24

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

25

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

26

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

EXHIBIT 10.18

ADDENDUM TO LEASE

FOR PREMISES COMMONLY KNOWN AND DESIGNATED AS:

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

This Addendum to Lease executed on September __, 1998, by and between DOLORES MCNABB, as Landlord, and SKECHERS USA, INC., as Tenant, is an integral part of said Lease as if full set forth therein.

A. OPTION TO EXTEND LEASE TERM.

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

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

B. RENT.

Tenant shall pay to Landlord rent, free from all claims, demands or set-offs against Landlord of any kind or character whatsoever, except as otherwise expressly provided to the contrary, in advance, in the amount of \$167,945.82, payable \$3,375 on execution of this lease and thereafter on the first day of each month as follows:

November 1, 1998 to September 30, 1999	\$2250.00 per month
October 1, 1999 to September 30, 2000	\$2317.50 per month
October 1, 2000 to September 30, 2001	\$2387.00 per month
October 1, 2001 to September 30, 2002	\$2458.61 per month
October 1, 2002 to September 30, 2003	\$2532.37 per month
October 1, 2003 to June 30, 2004	\$2608.34 per month

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

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

C. USE.

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

D. REAL ESTATE TAXES-OPTION PERIODS.

Upon the exercise of the options hereinabove provided for, Tenant agrees to pay during the term of each such option period, or periods, as the case may be, its pro rata share of any increase in real estate taxes and assessments levied or imposed against the real property of which the demised premises are a part over an above the taxes imposed on said real property during the fifth year of the original term of this Lease (the base year). The parties hereto acknowledge and agree that Tenant occupies approximately 12.5% of the building and agree that for purposes of this provision that Tenant shall pay 12.5% of any such increase. Landlord shall provide Tenant with a copy of the tax bill for the sixth year (the base year) of the initial term along with a copy of the tax bill for each year during any option period that Tenant continues in possession under this Lease. Tenant shall pay to Landlord one half of its pro rata share (12.5%) of such increase on or before December 10 of each year and the remaining on half of its pro rata share (12.5%) on or before April 10 of each year.

E. AIR CONDITIONING REPAIR AND MAINTENANCE.

Landlord has provided an air conditioner that services Offices 1, 2, 3, 4 and 5 on the second floor of the north building. Tenant hereby agrees that it will pay any and all costs related to the repair and maintenance of said air conditioner. Further, the parties hereby the air conditioner servicing Offices 1 through 5 is on Landlord's house meter and the gas servicing said Offices is not separately metered. The parties hereby agree that a reasonable estimate of the monthly electrical and gas costs for Office #3, 4, and 5 is \$175.00. Tenant hereby pay to Landlord \$175.00 per month as reimbursement for such costs. Each year during the term of this Lease, such monthly amount shall be increased by 3% to reflect the anticipated general increase in costs. In the event electrical costs are increased substantially for any reason that makes the above sum unrealistic, as increased annually, the parties agree such sum shall be increased in an amount that reflects such substantial increase in such costs. Tenant may, at its discretion, elect to install separate meters for the gas and electric, at its sole and exclusive expense, and pay the utility costs for Offices 3, 4, and 5 directly. Tenant acknowledges that concurrent with the installation of the electrical meter, it would also have to install a separate air conditioner in order to isolate the expenses to said Offices #3, 4, and 5.

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

F. SECURITY DEPOSIT

Tenant shall pay Landlord on execution of this Lease the sum of \$4,500.00 as a security deposit in accordance with the provisions of Paragraph 19 of the Lease.

G. PARKING

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

H. RULES AND REGULATIONS

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

I. ASSIGNMENT

Notwithstanding the provisions of Paragraph 11 of the Lease, no consent from Landlord shall be required for the assignment of this Lease under the

following circumstances, each of which shall be considered a Permitted Assignment:

- (1) the transfer of stock of Tenant to members of the immediate family of a shareholder of Tenant, to a living trust for estate-planning purposes, or by will or intestacy; or,
- (2) Tenant sells or offers for sale its voting stock to the public in accordance with the qualifications or registration requirements of the State of California and the Security Act of 1933, as amended.

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

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

I. MUTUAL INDEMNIFICATION

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

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

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

LANDLORD

TENANT

DOLORES MCNABB

SKECHERS USA, INC.,
a California corporation

/s/ DOLORES L. MCNABB

by: /s/ DAVID WEINBERG

Date: September 10, 1998

by: David Weinberg, CFO

Date: September 14, 1998
RULES AND REGULATIONS

1

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

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

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

2

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

3

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

4

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

5

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

6

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

7

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

8

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

9

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

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10

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

11

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

12

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

13

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

14

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

15

Landlord will direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for wires will be allowed without the consent of Landlord. The location of telephones, call boxes and other office equipment affixed to said premises shall be subject to the

approval of Landlord. Landlord reserves the right to enter upon said premises for the purpose of installing additional electrical wiring and/or other utilities for benefit of Tenant or adjoining tenants.

16

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

17

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

18

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

Page 2 of 3

19

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

20

Landlord reserves the right to exclude or expel from the office park complex any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations.

21

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

22

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

23

The parking areas within the office complex shall be used solely for passenger type vehicles during normal office hours and the parking of trucks, trailers, recreational vehicles and campers is specifically prohibited. No vehicle of any type shall be stored within the parking areas at any time. In the event that a vehicle is disabled, it shall be removed within 48 hours. There shall be no "For Sale" or other advertising signs on or about any parked vehicle. All vehicles shall be parked in the designated parking areas in conformance with all signs and other markings.

24

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

25

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

26

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

EXHIBIT 10.19

PROMISSORY NOTE

\$3,250,000

December 22, 1998

FOR VALUE RECEIVED, the undersigned, SKECHERS USA, INC., a California corporation ("Maker"), promises to pay, in lawful money of the United States of America, to the order of Robert Y. Greenberg and M. Susan Greenberg, Trustees of the Greenberg Family Trust ("Holder"), dated May 3, 1988, at Hidden Hills, California, the total unpaid principal amount and all accrued interest thereon advanced by Holder from time to time to or for the benefit of or at the request of Maker from and after the date hereof. No advance shall be made under this Note, if as a result of such advance the total principal amount advanced would exceed at any one time the amount of Three Million Two Hundred Fifty Thousand Dollars (\$3,250,000). The unpaid principal amount of the advances made under this Note shall bear interest at the prime rate, with the total unpaid principal amount advanced and all accrued interest due thereon all due and payable on demand.

This note is subject to prepayment, in whole or in part, at any time without penalty or bonus.

It is expressly understood that this Note is solely a corporate obligation of the Maker and that any and all personal liability, either at common law or in equity, or by constitution or statute, of, and any and all rights and claims against, every stockholder, officer, or director, as such, past, present or future, are expressly waived and released by the Holder as a part of the consideration for the issuance hereof.

This Note is entered into the State of California, and the laws of that State shall govern all matters pertaining to this Note. Any action brought under this Note shall be brought in the State of California.

The Maker promises to pay interest after maturity (whether by demand or otherwise, and before as well as after judgment) at the prime interest rate and after such maturity on balances, if any, then outstanding.

Maker hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note.

Maker further agrees, in case suit is instituted to collect this Note or any portion thereof, to pay all costs of collection, other costs, and such additional sum for attorney's fees as the court may judge reasonable in such suit.

SKECHERS USA, INC.
a California corporation

By: /s/ DAVID WEINBERG

David Weinberg
Chief Financial Officer

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Skechers By Mail, Inc.

EXHIBIT 23.1

INDEPENDENT AUDITORS' REPORT ON SCHEDULE AND CONSENT

The following consent is in the format that will be signed when the transactions referred to in Note 12 of the Notes to Consolidated Financial Statements have been consummated.

KPMG LLP

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

The audits referred to in our report dated March 12, 1998, except for Note 12 which is as of April __, 1999, included the related financial statement schedule for each of the years in the three-year period ended December 31, 1998, included in the registration statement on Form S-1 of Skechers U.S.A., Inc. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to the use of our reports included herein and to the reference to our firm under the headings "Selected Financial Data" and "Experts" in the prospectus.

Los Angeles, California
April 8, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEETS AND THE STATEMENTS OF EARNINGS FILED AS PART OF THE COMPANY'S REGISTRATION STATEMENT ON FORM S-1 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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EXHIBIT 99.2

CONSENT OF NOMINATED DIRECTOR

The undersigned hereby consents to his nomination to serve on the Board of Directors of SKECHERS U.S.A., INC. and to all references to said nomination included in or made a part of this Registration Statement.

/s/ JOHN J. QUINN

John J. Quinn

April 8, 1999