AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 12, 1999

REGISTRATION NO. 333-60065

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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AMENDMENT NO. 2

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

| 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) |

(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) 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.

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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

MAY 12, 1999

10,715,000 SHARES

[SKECHERS U.S.A. INC.]

CLASS A COMMON STOCK

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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 the selling stockholders named on page 74 in the section "Principal and Selling Stockholders" are offering 1,790,000 shares. We will not receive any proceeds from the sale of stock by the selling stockholders. We anticipate that the initial public offering price will be between $13.00 and $15.00 per share.

The New York Stock Exchange has authorized our Class A common stock for listing on the Exchange under the symbol "SKX."

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

<TABLE>
<CAPTION>

| | 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 stockholders....................... | $ | $ |

</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 Greenberg Family Trust 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 such selling stockholder in the event the over-allotment option is exercised.

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BT ALEX. BROWN PRUDENTIAL SECURITIES

, 1999

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."

## 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, Dillards, 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 110 countries and territories through major international distributors and directly to consumers through 38 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. In addition, for the three months ended March 31, 1999, the Company experienced a 59.9% and 90.8% increase in net sales and earnings from operations, respectively, compared to the comparable period from the prior year. From 1997 to 1998, the Company also experienced an improvement in gross profit as a percentage of net sales ("Gross Margin") from 37.4% to 41.5% and in earnings from operations as a percentage of net sales ("Operating Margin") from 8.5% to 9.1%. For the three months ended March 31, 1999, the Company increased its Gross Margin from 37.6% to 38.3% and its Operating Margin from 4.2% to 5.0% compared to the comparable period from the prior year. 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.

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. For the three months ended March 31, 1999, 38.0%, 45.1% and 16.9% of gross sales at wholesale were derived from men's, women's and children's footwear, respectively.

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 five 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.



## THE OFFERING

| | |
|---|---|
| Class A Common Stock offered by the Company | 8,925,000 shares |
| Class A Common Stock offered by the selling stockholders | 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 $58.7 million will be used to repay indebtedness, approximately $7.6 million will be used to fund the Final 1998 Distribution, approximately $1.7 million will be used to fund the Final Tax Distribution and approximately $20.0 million will be used for the Final S Corporation Distribution. The remainder will be used for general corporate purposes. See "Use of Proceeds." |
| New York Stock Exchange Symbol for the Class A Common Stock | "SKX" |

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(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 March 31, 1999 at a per share exercise price of $2.78. Options to purchase an aggregate of 1,142,907 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, of which Robert Greenberg, Chief Executive Officer and Chairman of the Board of the Company, is a trustee, together with his wife.

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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.

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## 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



16,717,771 shares of Class B Common Stock, which will represent 64.2% 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."

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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.



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

<TABLE>
<CAPTION>

| | YEAR ENDED DECEMBER 31, | | | | | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1998 | 1999 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| STATEMENT OF OPERATIONS DATA: | | | | | | | |
| Net sales | $90,755 | $110,649 | $115,410 | $183,827 | $372,680 | $59,873 | $95,736 |
| Cost of sales | 61,579 | 78,692 | 81,199 | 115,104 | 218,100 | 37,390 | 59,038 |
| Gross profit | 29,176 | 31,957 | 34,211 | 68,723 | 154,580 | 22,483 | 36,698 |
| Royalty income, net | 1,012 | 1,843 | 1,592 | 894 | 855 | 132 | 49 |
| | 30,188 | 33,800 | 35,803 | 69,617 | 155,435 | 22,615 | 36,747 |
| Operating expenses | 26,682 | 32,000 | 30,678 | 53,981 | 121,444 | 20,110 | 31,968 |
| Earnings from operations | 3,506 | 1,800 | 5,125 | 15,636 | 33,991 | 2,505 | 4,779 |
| Other income (expense): | | | | | | | |
| Interest | (2,461) | (3,676) | (3,231) | (4,186) | (8,631) | (1,484) | (1,754) |
| Other, net | 18 | 214 | 61 | (37) | (239) | 64 | 482 |
| | (2,443) | (3,462) | (3,170) | (4,223) | (8,870) | (1,420) | (1,272) |
| Earnings (loss) before income taxes and extraordinary credit | 1,063 | (1,662) | 1,955 | 11,413 | 25,121 | 1,085 | 3,507 |
| Net earnings (loss) | 1,009 | (1,222)(1) | 1,910 | 11,023 | 24,471 | 1,052 | 3,429 |
| PRO FORMA OPERATIONS DATA:(2) | | | | | | | |
| Earnings (loss) before income taxes and extraordinary credit | $ 1,063 | $ (1,662) | $ 1,955 | $ 11,413 | $ 25,121 | $ 1,085 | $ 3,507 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Income taxes (benefit) | 425 | (665) | 782 | 4,565 | 10,048 | 434 | 1,403 |
| Earnings (loss) before extraordinary credit | 638 | (997) | 1,173 | 6,848 | 15,073 | 651 | 2,104 |
| Extraordinary credit, net | -- | 270(1) | -- | -- | -- | -- | -- |
| Net earnings (loss) | $ 638 | $ (727) | $ 1,173 | $ 6,848 | $ 15,073 | $ 651 | $ 2,104 |
| Net earnings (loss) per share:(3) | | | | | | | |
| Basic | $ .02 | $ (.03) | $ .04 | $ .25 | $ .54 | $ .02 | $ .08 |
| Diluted | $ .02 | $ (.03) | $ .04 | $ .24 | $ .50 | $ .02 | $ .07 |
| Weighted average shares:(3) | | | | | | | |
| Basic | 27,814 | 27,814 | 27,814 | 27,814 | 27,814 | 27,814 | 27,814 |
| Diluted | 29,067 | 29,067 | 29,067 | 29,067 | 30,136 | 29,996 | 29,919 |

</TABLE>

<TABLE>
<CAPTION>

| | AS OF DECEMBER 31, 1998 | AS OF MARCH 31, 1999 ACTUAL | PRO FORMA(4) | PRO FORMA AS ADJUSTED(4)(5) |
|---|---|---|---|---|
| BALANCE SHEET DATA: | | | | |
| Working capital | $ 23,106 | $ 26,349 | $ 22,809 | $ 98,363 |
| Total assets | 146,284 | 120,381 | 116,841 | 145,775 |
| Total debt | 70,933 | 62,889 | 62,889 | 4,237 |
| Stockholders' equity | 27,676 | 30,735 | 27,195 | 114,781 |

</TABLE>

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(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 and for each of the three months ended March 31, 1998 and 1999 includes 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 for all periods presented also gives 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



each of the years in the five year period ended December 31, 1998 and the three month period ended March 31, 1998, and during the 15 months ended March 31, 1999 for the determination of shares outstanding for the three month period ended March 31, 1999) 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 and 15 months for the three months ended March 31, 1999), 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 a $3.5 million S Corporation distribution 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 $1.7 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 $20.0 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 $2.0 million of deferred tax assets as if the Company had been a C Corporation since its inception, (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 and (vi) the repayment of $46.9 million under the revolving line of credit and $11.8 million under two term notes to a stockholder. 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 either the year ended December 31, 1998 or the three months ended March 31, 1999. 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 $10.0 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 addition, for the three months ended March 31, 1999, the Company experienced a 59.9% and 90.8% increase in net sales and earnings from operations, respectively, compared to the comparable period from the prior year. 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 and the three months ended March 31, 1999 were derived from sales of footwear manufactured for the Company outside of the United States. During such periods, 95.5% and 93.6% of such manufactured products were produced in China, respectively. 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 and the three months ended March 31, 1999, the top four manufacturers of the Company's manufactured products accounted for 15.4%, 14.2%, 12.1% and 10.4% of total purchases and 15.8%, 14.0%, 13.2% and 10.0% of total purchases, respectively. Other than the foregoing, no one manufacturer accounted for 10.0% or more of the Company's total purchases for either 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 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 and the three months ended March 31, 1999, the Company's net sales to its five largest customers accounted for approximately 34.8% and 25.3% of total net sales, respectively. 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 either 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 and March 31, 1999, Famous Footwear represented 12.6% and 10.0% of trade receivables, respectively. Other than the foregoing, no one customer accounted for 10.0% or more of trade receivables for either 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 and the three months ended March 31, 1999, the top five salespersons accounted for 39.8% and 28.8% of the Company's net sales, respectively. One of these salespersons generated 17.9% of the Company's net sales for the year ended December 31, 1998 and 10.7% for the three months ended March 31, 1999. Other than the foregoing, no salesperson accounted for 10.0% or more of net sales for either 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 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 cyclicality 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 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 March 31, 1999, the Company had approximately $78.9 million of open purchase orders with its manufacturers and $44.3 million of inventory relating to order backlog of $136.5 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.

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 64.2% of the outstanding Class B Common Stock of the Company (or approximately 61.9% 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 61.7% of the aggregate number of votes eligible to be cast by the Company's stockholders (or approximately 58.9% 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 has been authorized to list 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 stockholders 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 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 stockholders) 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 19,356,329 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 $10.95 per share based upon an assumed initial public offering price of $14.00 per share. Moreover, to the extent outstanding options to purchase Class A Common Stock are exercised in the future, there will be further dilution. See "Dilution."



## 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 $46.9 million as of March 31, 1999), (ii) to repay a $10.0 million subordinated note (the "Subordinated Note") and a $1.8 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 $1.7 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 $20.0 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 March 31, 1999) plus 25 basis points or at Libor (5.06% at March 31, 1999) plus 2.75%. Approximately $46.9 million was outstanding under the revolving line of credit as of March 31, 1999. 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 March 31, 1999) and are due on demand. The Greenberg Family Trust has agreed not to call the Subordinated Note prior to April 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 stockholders.

## 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 $370,000 S Corporation distribution, $350,000 of which consisted of assets related to the "Cross Colours" trademark and approximately $20,000 of which was paid in cash (the "January 1999 Distribution"). See "Certain Transactions." In April 1999, the Company made the first installment of Federal income taxes payable on S Corporation earnings for 1998 (the "April Tax Distribution"). 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 was $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 $1.7 million (the "Final Tax Distribution") and the amount of the Final S Corporation Distribution will be approximately $20.0 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 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 Company's tax savings 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. The stockholders will also indemnify the Company for any increase in the Company's tax liability to the extent such increase results in a related decrease in the stockholders' tax liability.

## DIVIDEND POLICY

The Company anticipates that 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 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 March 31, 1999 (when the Company was an S Corporation), (ii) on a pro forma basis to reflect the April Tax Distribution of $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 $1.7 million, and the Final S Corporation Distribution, estimated to be $20.0 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 $2.0 million of deferred tax assets as if the Company were treated as a C Corporation since its inception, (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, and (D) the repayment of $46.9 million under the revolving line of credit and $11.8 million under two term notes to a stockholder. 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 MARCH 31, 1999 | | |
|---|---|---|---|
| | ACTUAL | PRO FORMA | PRO FORMA, AS ADJUSTED(1)(2) |
| | (IN THOUSANDS, EXCEPT SHARE DATA) | | |
| <S> | <C> | <C> | <C> |
| Short-term debt(3)................................ | $49,396 | $49,396 | $ 744 |
| Long-term debt: | | | |
| Notes payable to stockholder..................... | $10,000 | $10,000 | $ -- |
| Other long-term debt............................ | 3,493 | 3,493 | 3,493 |
| 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(4).................................. | -- | -- | 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(5) | -- | -- | 114,829 |
| Retained earnings (accumulated deficit) | 30,733 | 27,193 | (85) |
| Total stockholders' equity | 30,735 | 27,195 | 114,781 |
| Total capitalization | $44,228 | $40,688 | $118,274 |

</TABLE>

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(1) 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 stockholders pursuant to the Offering.

(2) Repayment of short-term debt includes $46,857,000 under the revolving line of credit and $1,795,000 of the Unsubordinated Note. Repayment of long-term debt includes $10,000,000 of the Subordinated Note.

(3) Includes the current installments of other long-term debt of $744,000 and the Unsubordinated Note payable to stockholder of $1,795,000.

(4) Excludes options to acquire 1,390,715 shares of Class A Common Stock outstanding as of March 31, 1999, at a per share exercise price of $2.78. Options to purchase an aggregate of 1,142,907 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."

(5) In 1998, the Company charged to expense $660,000 of costs related to the Offering.



## DILUTION

The net tangible book value of the Company's Common Stock at March 31, 1999 was approximately $30.0 million or $1.08 per share. The pro forma net tangible book value of the Company's Common Stock at March 31, 1999 was approximately $(2.9) million or $(.10) 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 of $3.5 million which was paid in April 1999 and (ii) the Final 1998 Distribution estimated to be $7.6 million, the Final Tax Distribution estimated to be $1.7 million and the Final S Corporation Distribution estimated to be $20.0 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 March 31, 1999 would have been $112.0 million or $3.05 per share of Common Stock. This represents an immediate increase in pro forma net tangible book value of $3.15 per share to existing stockholders and an immediate and substantial dilution of $10.95 per share to new investors purchasing shares in the Offering. The following table illustrates this per share dilution:

<TABLE>

| <S> | <C> | <C> |
|---|---|---|
| Assumed initial public offering price per share............ | | $ 14.00 |
| Pro forma net tangible book value per share as of March 31, 1999............................................ | $ (.10) | |
| Increase per share attributable to new investors.......... | 3.15 | |
| | -------- | |
| Pro forma as adjusted net tangible book value per share after the Offering....................................... | | 3.05 |
| | | -------- |
| Dilution per share to new investors......................... | | $ 10.95 |
| | | ======== |

</TABLE>

The following table summarizes, on a pro forma basis as of March 31, 1999, 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 PURCHASED | | TOTAL CONSIDERATION | | AVERAGE PRICE |
|---|---|---|---|---|---|
| | 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 stockholders 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. The selected financial data presented below under the caption "Pro Forma Statement of Operations Data," and the selected statement of operations data for the three months ended March 31, 1998 and 1999, and the selected balance sheet data as of March 31, 1999, have been derived from the unaudited consolidated financial statements of the Company, and include all adjustments, consisting solely of normal recurring accruals, which management considers necessary for a fair presentation of such financial information for those periods. Results of operations for the three months ended March 31, 1999 are not necessarily indicative of results for the full year.

<TABLE>
<CAPTION>

| | YEAR ENDED DECEMBER 31, | | | | | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1998 | 1999 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| STATEMENT OF OPERATIONS DATA: | | | | | | | |
| Net sales | $90,755 | $110,649 | $115,410 | $183,827 | $372,680 | $59,873 | $95,736 |
| Cost of sales | 61,579 | 78,692 | 81,199 | 115,104 | 218,100 | 37,390 | 59,038 |
| Gross profit | 29,176 | 31,957 | 34,211 | 68,723 | 154,580 | 22,483 | 36,698 |
| Royalty income, net | 1,012 | 1,843 | 1,592 | 894 | 855 | 132 | 49 |
| | 30,188 | 33,800 | 35,803 | 69,617 | 155,435 | 22,615 | 36,747 |
| Operating expenses: | | | | | | | |
| Selling | 10,872 | 12,150 | 11,739 | 21,584 | 49,983 | 7,017 | 15,571 |
| General and administrative | 15,810 | 19,850 | 18,939 | 32,397 | 71,461 | 13,093 | 16,397 |
| | 26,682 | 32,000 | 30,678(1) | 53,981 | 121,444 | 20,110 | 31,968 |
| Earnings from operations | 3,506 | 1,800 | 5,125 | 15,636 | 33,991 | 2,505 | 4,779 |
| Other income (expense): | | | | | | | |
| Interest | (2,461) | (3,676) | (3,231) | (4,186) | (8,631) | (1,484) | (1,754) |
| Other, net | 18 | 214 | 61 | (37) | (239) | 64 | 482 |
| | (2,443) | (3,462) | (3,170) | (4,223) | (8,870) | (1,420) | (1,272) |
| Earnings (loss) before income taxes and extraordinary credit | 1,063 | (1,662) | 1,955 | 11,413 | 25,121 | 1,085 | 3,507 |
| State income taxes -- all current | 54 | 3 | 45 | 390 | 650 | 33 | 78 |
| Earnings (loss) before extraordinary credit | 1,009 | (1,665) | 1,910 | 11,023 | 24,471 | 1,052 | 3,429 |
| Extraordinary credit, net of state income taxes | -- | 443(1) | -- | -- | -- | -- | -- |
| Net earnings (loss) | $ 1,009 | $(1,222) | $ 1,910 | $11,023 | $24,471 | $ 1,052 | $ 3,429 |
| PRO FORMA OPERATIONS DATA:(2) | | | | | | | |
| Earnings (loss) before income taxes and extraordinary credit | $ 1,063 | $(1,662) | $ 1,955 | $11,413 | $25,121 | $ 1,085 | $ 3,507 |
| Income taxes (benefit) | 425 | (665) | 782 | 4,565 | 10,048 | 434 | 1,403 |
| Earnings (loss) before extraordinary credit | 638 | (997) | 1,173 | 6,848 | 15,073 | 651 | 2,104 |
| Extraordinary credit, net of state income taxes | -- | 270(1) | -- | -- | -- | -- | -- |
| Net earnings (loss) | $ 638 | $ (727) | $ 1,173 | $ 6,848 | $15,073 | $ 651 | $ 2,104 |
| Net earnings (loss) per share:(3) | | | | | | | |
| Basic | $ .02 | $ (.03) | $ .04 | $ .25 | $ .54 | $ .02 | $ .08 |
| Diluted | $ .02 | $ (.03) | $ .04 | $ .24 | $ .50 | $ .02 | $ .07 |
| Weighted average shares:(3) | | | | | | | |
| Basic | 27,814 | 27,814 | 27,814 | 27,814 | 27,814 | 27,814 | 27,814 |
| Diluted | 29,067 | 29,067 | 29,067 | 29,067 | 30,136 | 29,996 | 29,919 |

</TABLE>

<TABLE>
<CAPTION>

| <S> | AS OF DECEMBER 31, 1994 <C> | 1995 <C> | 1996 <C> | 1997 <C> | 1998 <C> | AS OF MARCH 31, 1999 <C> |
|---|---|---|---|---|---|---|
| BALANCE SHEET DATA: | | | | | | |
| Working capital | $ 8,930 | $ 8,155 | $11,987 | $17,081 | $ 23,106 | $ 26,349 |
| Total assets | 43,575 | 47,701 | 42,151 | 90,881 | 146,284 | 120,381 |
| Total debt | 28,180 | 31,748 | 25,661 | 39,062 | 70,933 | 62,889 |
| Stockholders' equity | 2,330 | 938 | 3,336 | 11,125 | 27,676 | 30,735 |

</TABLE>



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(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 and for each of the three months ended March 31, 1998 and 1999 includes 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 for all periods presented also gives 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 each of the years in the five year period ended December 31, 1998 and the three month period ended March 31, 1998, and during the 15 months ended March 31, 1999 for the determination of shares outstanding for the three month period ended March 31, 1999) 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 and 15 months for the three months ended March 31, 1999), 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.



## 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, Dillards, 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 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.

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. In addition, for the three months ended March 31, 1999, the Company experienced a 59.9% and 90.8% increase in net sales and earnings from operations, respectively, compared to the comparable period from the prior year. From 1997 to 1998, the Company also



experienced an improvement in Gross Margin from 37.4% to 41.5% and Operating Margin from 8.5% to 9.1%. For the three months ended March 31, 1999, the Company increased its Gross Margin from 37.6% to 38.3% and its Operating Margin from 4.2% to 5.0% compared to the comparable period from the prior year. These improvements resulted in part from the shift to 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 April 30, 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 April 30, 1999, the Company also operated 16 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 three new outlet stores in the remainder of 1999. For the year ended December 31, 1998 and the three months ended March 31, 1999 approximately 7.4% and 8.6% of net sales were generated by the Company's retail stores, respectively.

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 either the year ended December 31, 1998 or the three months ended March 31, 1999. 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 and the three months ended March 31, 1999, approximately 9.1% and 10.7% of the Company's net sales was derived from its international operations, respectively. 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. For the three months ended March 31, 1999, the top four manufacturers of the Company's products accounted for 15.8%, 14.0%, 13.2% and 10.0% 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 periods. 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 arrangements with certain of 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 arrangements 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 stockhold-



ers 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 $350,000 of assets related to the "Cross Colours" trademark and approximately $20,000 of cash. See "Certain Transactions." In April 1999, the Company declared 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 was $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 $1.7 million and the amount of the Final S Corporation Distribution will be approximately $20.0 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 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, | | | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 70.4 | 62.6 | 58.5 | 62.4 | 61.7 |
| Gross profit | 29.6 | 37.4 | 41.5 | 37.6 | 38.3 |
| Royalty income, net | 1.4 | 0.5 | 0.2 | 0.2 | 0.1 |
| | 31.0 | 37.9 | 41.7 | 37.8 | 38.4 |
| Operating expenses: | | | | | |
| Selling | 10.2 | 11.8 | 13.4 | 11.7 | 16.3 |
| General and administrative | 16.4 | 17.6 | 19.2 | 21.9 | 17.1 |
| | 26.6 | 29.4 | 32.6 | 33.6 | 33.4 |
| Earnings from operations | 4.4 | 8.5 | 9.1 | 4.2 | 5.0 |
| Interest expense, net | (2.8) | (2.3) | (2.3) | (2.5) | (1.8) |
| Other, net | 0.1 | (0.0) | (0.1) | 0.1 | 0.5 |
| Earnings before pro forma income taxes | 1.7 | 6.2 | 6.7 | 1.8 | 3.7 |
| Pro forma income taxes | 0.7 | 2.5 | 2.7 | 0.7 | 1.5 |
| Pro forma net earnings | 1.0% | 3.7% | 4.0% | 1.1% | 2.2% |

</TABLE>



THREE MONTHS ENDED MARCH 31, 1999 COMPARED TO THREE MONTHS ENDED MARCH 31, 1998

Net Sales

Net sales increased $35.8 million, or 59.9%, to $95.7 million for the three months ended March 31, 1999 as compared to $59.9 million for the three months ended March 31, 1998. 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 sales force and international distributor network, (iv) the increased volume of the Company's existing account base with multiple stores and increased sales to such accounts, resulting in higher sales per account, (v) operations of 38 Company stores during the first quarter of 1999 versus the operations of 16 Company stores during the first quarter of 1998, and (vi) the launch of the Company's direct mail business in August 1998. Gross wholesale sales of men's footwear, including international, increased $7.8 million or 29.6% to $34.0 million for the three months ended March 31, 1999, as compared to $26.2 million for the three months ended March 31, 1998. The increase in sales of men's footwear was achieved despite a decline in men's "Kani" footwear sales of $598,000. No Kani sales were recorded for the three months ended March 31, 1999. The Company discontinued actively marketing "Kani" footwear in 1997. Sales of "Kani" footwear for the three months ended March 31, 1998 resulted from inventory close-outs, which were substantially completed during this fiscal period. Gross wholesale sales of women's footwear, including international, increased $16.7 million, or 70.4%, to $40.4 million for the three months ended March 31, 1999 as compared to $23.7 million for the three months ended March 31 1998. Gross wholesale sales of children's footwear, including international, increased $8.2 million, or 120.8%, to $15.1 million for the three months ended March 31, 1999 as compared to $6.9 million for the three months ended March 31, 1998. Provisions for returns and allowances were $3.1 million for the three months ended March 31, 1999 as compared to $1.6 million for the three months ended March 31, 1998. Net sales through the Company's retail stores increased $4.7 million or 134.3%, to $8.2 million for the three months ended March 31, 1999 as compared to $3.5 million for the three months ended March 31, 1998. This increase is due to an increase in sales from pre-existing stores and new store openings. Net sales generated from international operations increased $2.1 million, or 25.6%, to $10.2 million for the three months ended March 31, 1999, as compared to $8.1 million for the three months ended March 31, 1998.

Gross Profit

The Company's gross profit increased $14.2 million, or 63.2%, to $36.7 million for the three months ended March 31, 1999, compared to $22.5 million for the three months ended March 31, 1998. The increase was attributable to higher sales and an improvement in Gross Margin. The Gross Margin increased to 38.3% for the three months ended March 31, 1999 from 37.6% for the same period in 1998. The increase in the Gross Margin was primarily due to (i) better retail sell-through at the Company's retail customer accounts, which typically results in fewer markdowns, (ii) an increase in the proportions of total sales derived from the women's footwear line, which had a higher margin than the men's footwear line, and (iii) the increase in the Company's retail sales, including direct mail, since such retail Gross Margins are higher than wholesale Gross Margins.

Royalty Income, Net

Royalty income, net of related expenses, decreased $83,000, or 62.9% to $49,000 for the three months ended March 31, 1999 compared to $132,000 for the three months ended March 31, 1998. The Company earns royalty income based upon a percentage of sales of its licensees and sublicensees. The decrease was due to the termination of the Company's license relating to "Kani" apparel. Management expects that royalty income may increase in total dollars, but not necessarily as a percentage of net sales, as the Company's licensing efforts for Skechers products increase.



Selling Expenses

Selling expenses include sales salaries, commissions and incentives, advertising, promotions and trade shows. Selling expenses increased $8.6 million, or 121.9%, to $15.6 million (16.3% of net sales) for the three months ended March 31, 1999 from $7.0 million (11.7% of net sales) for the three months ended March 31, 1998. The increase in total dollars was primarily due to increased advertising and tradeshow expenditures, sales compensation due to the increase in footwear sales, and the hiring of additional sales personnel. Advertising expenses as a percentage of net sales for the three months ended March 31, 1999 and 1998 was 13.3% and 9.1%, respectively. The Company endeavors to spend approximately 8.0% to 10.0% of annual net sales in the marketing of Skechers footwear through advertising, promotions, public relations, trade shows and other marketing efforts. Marketing expense as a percentage of net sales may vary from quarter to quarter. The increase as a percentage of sales was due primarily to the factors above.

General and Administrative Expenses

General and administrative expenses increased $3.3 million, or 25.2%, to $16.4 million (17.1% of net sales) for the three months ended March 31, 1999 from $13.1 million (21.9% of net sales) for the three months ended March 31, 1998. The increase in total dollars 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 and (iv) the addition of 22 retail stores which were not open in the first quarter of 1998. The decrease as a percentage of net sales was primarily due to the increase in the volume of footwear sold. Also included in general and administrative expenses for the three months ended March 31, 1998 is $691,000 of compensation expense relating to the Company's 1996 Incentive Compensation Plan (the "1996 Incentive Compensation Plan") which expired December 31, 1998. The Company has not introduced an incentive compensation plan for 1999. See "Management -- Executive Compensation -- Summary Compensation Table."

Interest Expense

Interest expense increased $270,000, or 18.2%, to $1.8 million for the three months ended March 31, 1999 as compared to $1.5 million for the three months ended March 31, 1998 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 arrangements with the certain of 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, 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 39.8%, 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 179.8%, 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 $6.3 million, or 22.6%, to $34.0 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 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 Gross 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 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 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 (11.8% 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. Advertising expenses as a percentage of net sales for the years ended December 31, 1998 and 1997 was 11.3% and 8.6%, respectively. 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 $2.7 million, respectively, of bonus compensation expense, including those related to the Company's 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 arrangements with certain of 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 $26.2 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 $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 $9.9 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 $2.7 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 $2.7 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 arrangements with certain of 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 $26.3 million at March 31, 1999 and $23.1 million and $17.1 million at December 31, 1998 and 1997, respectively. The increase in working capital at March 31, 1999 as compared to December 31, 1998 was primarily due to the first quarter 1999 net earnings which are retained in the components of working capital.

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 three months ended March 31, 1999 and 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 March 31, 1999 and December 31, 1998 and 1997, 59.0%, 65.1% and 47.1%, respectively, of the Company's accounts receivables was covered under this insurance.

Net cash used in operating activities totaled $871,000 and $24.9 million for the three months ended March 31, 1999 and 1998, respectively. The decrease in cash used by operating activities was due to a decrease in inventory balances. 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 increase in cash used 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 totaled $946,000 and $1.2 million for the three months ended March 31, 1999 and 1998, respectively, and related to capital expenditures. The decrease in capital expenditures was due to the establishment of the Company's distribution in 1998. Net cash used in investing activities totaled $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 $5.5 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 $10.0 million, the balance of which will be spent in 2000. The Company also anticipates spending $400,000 for expenditures on



equipment for the Company's distribution facilities, and $4.1 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 (used in) financing activities totaled $(8.1) million and $25.0 million for the three months ended March 31, 1999 and 1998, respectively. The decrease in cash provided by financing activities was primarily due to lesser financing needs to fund cash flow from operations and the use of available cash at December 31, 1998 to repay a portion of the revolving line of credit during the three months ended March 31, 1999. Net cash provided by financing activities totaled $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 $15.1 million of availability as of March 31, 1999) 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 March 31, 1999) plus 25 basis points or at Libor (5.06% at March 31, 1999) 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 March 31, 1999, the Company had approximately $1.3 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 $2.6 million as of March 31, 1999, 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 $46.9 million under the revolving line of credit and $11.8 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 March 31, 1999. 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 March 31, 1999, the Unsubordinated Note and Subordinated Note bear interest at the prime rate (7.75% at March 31, 1999) and are due on demand. The Greenberg Family Trust has agreed not to require repayment of the Subordinated Note prior to April 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, the Company declared the April Tax Distribution of $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 $1.7 million, and the Final S Corporation Distribution, estimated to be $20.0 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>

| THREE MONTHS ENDED | 1997 | | | | 1998 | | | | 1999 |
|---|---|---|---|---|---|---|---|---|---|
| (IN THOUSANDS) | MARCH 31 | JUNE 30 | SEPT. 30 | DEC. 31 | MARCH 31 | JUNE 30 | SEPT. 30 | DEC. 31 | MARCH 31 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Net sales................ | $27,591 | $32,705 | $62,562 | $60,969 | $59,873 | $87,684 | $143,045 | $82,078 | $95,736 |
| Gross profit............ | 9,207 | 11,125 | 23,552 | 24,839 | 22,483 | 35,997 | 62,176 | 33,924 | 36,698 |
| Earnings (loss) from operations............ | (299) | 2,244 | 8,203 | 5,488 | 2,505 | 10,834 | 24,460 | (3,808) | 4,779 |
| Pro forma net earnings (loss)................ | (559) | 760 | 4,278 | 2,369 | 651 | 4,759 | 13,553 | (3,890) | 2,104 |

</TABLE>

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.

The Company's operating results for the first quarter of 1999 were not affected to the same degree by those industry factors which impacted the Company's operating results in the fourth quarter of 1998. The improvement in the retail footwear market and the reduction in incentive compensation expenses had 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. 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 began 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 has begun to assess its personal computers for necessary changes which are anticipated to be 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 has begun to send surveys and conduct formal communications with its significant business partners 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 hold any derivatives or engage in hedging activities, accordingly SFAS No. 133 should not impact 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, Dillards, 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 110 countries and territories through major international distributors and directly to consumers through 38 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. In addition, for the three months ended March 31, 1999, the Company experienced a 59.9% and 90.8% increase in net sales and earnings from operations, respectively, compared to the comparable period from the prior year. From 1997 to 1998, the Company also experienced an improvement in Gross Margin from 37.4% to 41.5% and Operating Margin from 8.5% to 9.1%. For the three months ended March 31, 1999, the Company increased its Gross Margin from 37.6% to 38.3% and its Operating Margin from 4.2% to 5.0% compared to the comparable period from the prior year. 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.



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. For the three months ended March 31, 1999, 38.0%, 45.1% and 16.9% of gross sales at wholesale were derived from men's, women's and children's footwear, respectively.

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.

## INDUSTRY OVERVIEW

The Company competes in the men's, women's and children's markets for casual and rugged footwear. Management believes that 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.

Management believes that 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, in management's opinion, these two categories will 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. Management believes that the growth of the performance athletic shoe segment will 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, management believes that 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. Lastly, management believes that approximately 14.5 million people currently participate in alternative or extreme sports and that participation rates will 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. Management believes that teen income increased 29% from 1993 to approximately $111.0 billion in 1997. Management believes that in 1996 approximately $7.7 billion, or 7.1%, of total expenditures, was spent on footwear. Management further believes that 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.

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 April 30, 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 April 30, 1999, the Company also operated 16 factory and warehouse outlet stores that enable the Company to liquidate excess, 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 the 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 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% and 8.6% of net sales for 1998 and the three months ended March 31, 1999, respectively. 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 three 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 and the three months ended March 31, 1999, approximately 9.1% and 10.7% of the Company's net sales were derived from its international operations, respectively. 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 three months ended March 31, 1999, 38.0%, 45.1% and 16.9% 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 or the three months ended March 31, 1999.

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 four 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-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 gussetted tongues to prevent penetration of water and debris, cushioned mid-soles, motion control devices such as heel cups, water-resistant or water-proof construction and materials and heavier, more durable hardware such as metal D-rings instead of eyelets. Uppers are generally constructed of heavily oiled 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, (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.

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 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 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 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.

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 also new 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 exclusive independent sales representatives. The Company also has 14 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 and the three months ended March 31, 1999 the top five sales persons accounted for 39.8% and 28.8% of the Company's net sales, respectively. One of these salespersons generated 17.9% and 10.7% of the Company's net sales for the year ended December 31, 1998 and the three months ended March 31, 1999, respectively.

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, Dillards, 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 and the three months ended March 31, 1999, the Company's net sales to its five largest customers accounted for approximately 34.8% and 25.3% of total net sales, respectively. 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 either 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 and the three months ended March 31, 1999, 95.5% and 93.6% of the Company's products were manufactured in China, respectively. 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 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 50-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. For the three months ended March 31, 1999, the top four manufacturers of the Company's products accounted for 15.8%, 14.0%, 13.2% and 10.0% of total purchases, respectively. Other than the foregoing, no one manufacturer accounted for 10.0% or more of the Company's total purchases for either 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.

## 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 and the three months ended March 31, 1999, approximately 7.4% and 8.6% of net sales were generated by the Company's retail stores, respectively.

### 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 April 30, 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 4,000.

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.

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 April 30, 1999, the Company also operated 16 factory and warehouse outlet stores, 10 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 three 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 and the three months ended March 31, 1999, approximately 9.1% and 10.7% of the Company's net sales was derived from its international operations, respectively.

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 110 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 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 $10.0 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 March 31, 1999, the Company's backlog was $136.5 million, compared to $162.3 million at March 31, 1998. 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 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, 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.

## EMPLOYEES

As of April 30, 1999, the Company employed 863 persons, 552 of which were employed on a full-time basis and 311 of which were employed on a part-time basis. The Company also from time to time employs part-time personnel. None of the Company's employees is subject to a collective bargaining agreement. The Company believes that its relations with its employees are satisfactory.



## PROPERTIES

The Company's corporate headquarters and additional administrative offices are located at three premises in Manhattan Beach, California, and consist of an aggregate of approximately 37,000 square feet. The leases on the premises expire between February 2002 and February 2008, with options to extend in some cases, and the current aggregate annual rent is approximately $930,000.

The Company also leases space for its distribution centers and its retail stores. These facilities aggregate approximately 815,000 square feet, with an annual aggregate base rental of approximately $7.0 million, plus, in some cases, a percentage of the store's gross sales in excess of the base annual rent. The terms of these leases vary as to duration and rent escalation provisions. The Company has also signed leases for retail stores expected to be opened in 1999. In general, the leases expire between April 2000 and December 2008 and provide for rent escalations tied to either increases in the lessor's operating expenses or fluctuations in the consumer price index in the relevant geographical area.

## LEGAL PROCEEDINGS

On April 16, 1999, a complaint captioned Swanier v. Skechers was filed against the Company and an employee of the Company in the Superior Court, County of Los Angeles, Southwest District, Torrance, Case No. YC034808. The complaint alleges various causes of action in connection with plaintiff's employment by the Company. The plaintiff is seeking actual and punitive damages in amounts to be proven at trial. The Company believes it has meritorious defenses to such claims and intends to defend this case vigorously. Nevertheless, litigation is uncertain, and the Company may not prevail in this suit.

The Company filed a complaint captioned Skechers U.S.A., Inc. v. Wolverine World Wide, Inc., et al, on October 13, 1998 in the United States District Court for the Central District of California, Los Angeles, Case No. 98-8335 RAP alleging various causes of action relating to trade dress infringement. The Company is seeking equitable relief and monetary and punitive damages from the defendants in amounts to be proven at trial. On December 10, 1998, certain of the defendants counter claimed against the Company for claims relating to design patent and trade dress infringement. The defendants are seeking declaratory and equitable relief and monetary and punitive damages in amounts to be proven at trial. The Company believes it has meritorious defenses to such claims and intends to defend these claims vigorously. Nevertheless, litigation is uncertain, and the Company may not prevail in this suit.

The Company occasionally becomes involved in litigation arising from the normal course of business. Other than the foregoing, management believes that any liability with respect to pending legal actions, individually or in the aggregate, will not have a material adverse effect on the Company's business, financial condition and results of operations.



# MANAGEMENT

## DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES

The following table sets forth the name, age as of March 31, 1999, and position with the Company of all directors and executive officers and certain key employees of the Company:

<TABLE>
<CAPTION>

| NAME | AGE | POSITION |
|---|---|---|
| Directors and Executive Officers: | | |
| Robert Greenberg | 59 | Chairman of the Board and Chief Executive Officer |
| Michael Greenberg | 36 | President and Director |
| David Weinberg | 48 | Executive Vice President, Chief Financial 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 Christopulos | 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 |

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(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 from 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 1,142,907 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>

| | | ANNUAL COMPENSATION | | | LONG-TERM COMPENSATION AWARDS | LONG-TERM COMPENSATION PAYOUTS | |
|---|---|---|---|---|---|---|---|
| NAME AND PRINCIPAL POSITION | YEAR | SALARY($) | BONUS($) | OTHER ANNUAL COMPENSATION ($)(1) | SECURITIES UNDERLYING OPTIONS(#) | LTIP PAYOUTS ($)(2) | ALL OTHER COMPENSATION($) |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Robert Greenberg............. | 1998 | -- | 2,079,943 | 14,518 | -- | -- | 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) |

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(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 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.



(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 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, (iii) by cancellation of indebtedness owed by the Company to the optionholder, (iv) by a full recourse promissory note executed by the optionholder, (v) by arrangement with a broker or (vi) 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.



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 1,142,907 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

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

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(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

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

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(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 20 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



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



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.



## 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 $10.0 million Subordinated Note and the Unsubordinated Note (which was originally $3.2 million). As of March 31, 1999, approximately $1.4 million had been repaid under the Unsubordinated Note and $1.8 million was outstanding. The Subordinated and Unsubordinated Notes each bear interest at the prime rate (7.75% at March 31, 1999) and are due on demand. The Greenberg Family Trust agreed not to call the Subordinated Note prior to April 2000. The Company recorded interest expense of approximately $1.2 million, $1.1 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. As of the years ended December 31, 1996 and 1997 and March 31, 1999, the Company had advanced approximately $193,000, $277,000 and $52,000, of such interest payments, respectively. As of December 31, 1998, the Company had no advances outstanding with respect to interest payments to the Greenberg Family Trust. 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:

| NAME OF STOCKHOLDER | YEAR ENDED DECEMBER 31, 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 |

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(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:

| 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 |

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 $20,000 and $0 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 declared the April Tax Distribution consisting of the first installment of Federal income taxes payable on S Corporation earnings for 1998. The April Tax Distribution was $3.5 million and was declared and paid to the following holders of 5% or more of the Company's Class B Common Stock:

| NAME OF STOCKHOLDER | AMOUNT OF APRIL TAX DISTRIBUTION |
|---|---|
| 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 |

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 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 $1.7 million, and that the amount of the Final S Corporation Distribution will be $20.0 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:

| NAME OF STOCKHOLDER | FINAL TAX DISTRIBUTION | FINAL S CORPORATION DISTRIBUTION |
|---|---|---|
| The Greenberg Family Trust | $1,105,000 | $12,549,000 |
| Michael Greenberg | 170,000 | 2,297,000 |
| Jason Greenberg | 85,000 | 1,033,400 |
| Jeffrey Greenberg | 85,000 | 957,600 |
| Joshua Greenberg | 85,000 | 1,035,400 |
| Jennifer Greenberg | 85,000 | 1,043,400 |

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 Company's tax saving 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. The stockholders will also indemnify the Company for any increase in the Company's tax liability to the extent such increase results in a related decrease in the stockholders' tax liability.

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>

| | SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(2) | | | SHARES OF CLASS A | SHARES BENEFICIALLY OWNED AFTER OFFERING(2) | | |
|---|---|---|---|---|---|---|---|
| NAME OF BENEFICIAL OWNER(1)(2) | NUMBER OF CLASS A SHARES | NUMBER OF CLASS B SHARES | PERCENT OF TOTAL VOTING POWER | COMMON STOCK OFFERED(3) | NUMBER OF CLASS A SHARES | NUMBER OF CLASS B SHARES | PERCENT OF TOTAL VOTING POWER |
| Robert Greenberg(3)....... | -- | 18,079,198(4) | 65.0% | 1,361,427 | -- | 16,717,771(4) | 61.7% |
| Michael Greenberg......... | -- | 2,781,415 | 10.0 | 142,857 | -- | 2,638,558 | 9.7 |
| David Weinberg............ | 69,535(5) | -- | * | -- | 69,535(5) | -- | * |
| Jeffrey Greenberg......... | -- | 1,390,708 | 5.0 | 71,429 | -- | 1,319,279 | 4.9 |
| Jason Greenberg........... | -- | 1,390,708 | 5.0 | 71,429 | -- | 1,319,279 | 4.9 |
| Joshua Greenberg.......... | -- | 1,390,708 | 5.0 | 71,429 | -- | 1,319,279 | 4.9 |
| Jennifer Greenberg........ | -- | 1,390,708 | 5.0 | 71,429 | -- | 1,319,279 | 4.9 |
| 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 | 1,504,284 | 69,535(5) | 19,356,329 | 71.4 |

</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 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 58.9% 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 Greenberg Family Trust 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



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



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



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 American Stock Transfer and Trust Company.

## 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, 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 stockholders) 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 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 1,142,907 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 19,356,329 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 stockholders 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 |
|---|---|
| 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 stockholders 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 Greenberg Family Trust 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 Greenberg Family Trust 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 stockholders 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 stockholders) 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 "Shares Eligible for Future Sale."

The Representatives of the Underwriters have advised the Company and the selling stockholders 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 stockholders 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 stockholders 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.



## 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.



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

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>


| <S> | PAGE<br>----<br><C> |
|---|---|
| Independent Auditors' Report............................... | F-2 |
| Audited Consolidated Financial Statements: | |
| Consolidated Balance Sheets -- December 31, 1997 and 1998.................................................. | F-3 |
| Consolidated Statements of Earnings -- Each of the years in the three-year period ended December 31, 1998..................................... | F-4 |
| Consolidated Statements of Stockholders' Equity -- Each of the years in the three-year period ended December 31, 1998.................................................. | F-5 |
| Consolidated Statements of Cash Flows -- Each of the years in the three-year period ended December 31, 1998....... | F-6 |
| Notes to Consolidated Financial Statements................ | F-7 |
| Unaudited Interim Condensed Consolidated Financial Statements: | |
| Consolidated Balance Sheet -- March 31, 1999............. | F-15 |
| Consolidated Statements of Earnings -- Three-month periods ended March 31, 1998 and 1999.......................... | F-16 |
| Consolidated Statement of Stockholders' Equity -- Three-month period ended March 31, 1999...... | F-17 |
| Consolidated Statements of Cash Flows -- Three-month periods ended March 31, 1998 and 1999................. | F-18 |
| Notes to Consolidated Financial Statements................ | |

</TABLE>



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 May , 1999



SKECHERS U.S.A., INC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1997 AND 1998
(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS

<TABLE>
<CAPTION>

| <S> | 1997 <C> | 1998 <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.



SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

| <S> | 1996 <C> | 1997 <C> | 1998 <C> |
|---|---|---|---|
| Net sales | $115,410 | $183,827 | $372,680 |
| Cost of sales | 81,199 | 115,104 | 218,100 |
| Gross profit | 34,211 | 68,723 | 154,580 |
| Royalty income, net | 1,592 | 894 | 855 |
| | 35,803 | 69,617 | 155,435 |
| Operating expenses: | | | |
| Selling | 11,739 | 21,584 | 49,983 |
| General and administrative | 18,939 | 32,397 | 71,461 |
| | 30,678 | 53,981 | 121,444 |

| | | | |
|---|---|---|---|
| Earnings from operations | 5,125 | 15,636 | 33,991 |
| Other income (expense): | | | |
| Interest | (3,231) | (4,186) | (8,631) |
| Other, net | 61 | (37) | (239) |
| | (3,170) | (4,223) | (8,870) |
| Earnings before income taxes | 1,955 | 11,413 | 25,121 |
| State income taxes -- all current | 45 | 390 | 650 |
| Net earnings | $ 1,910 | $ 11,023 | $ 24,471 |
| Pro forma operations data (unaudited): | | | |
| Earnings before income taxes | $ 1,955 | $ 11,413 | $ 25,121 |
| Income taxes | 782 | 4,565 | 10,048 |
| Net earnings | $ 1,173 | $ 6,848 | $ 15,073 |
| Net earnings per share: | | | |
| Basic | $ .04 | $ .25 | $ .54 |
| Diluted | $ .04 | $ .24 | $ .50 |
| Weighted average shares: | | | |
| Basic | 27,814 | 27,814 | 27,814 |
| Diluted | 29,067 | 29,067 | 30,136 |

</TABLE>

See accompanying notes to consolidated financial statements.



SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(IN THOUSANDS)

<TABLE>
<CAPTION>

| | COMMON STOCK | | | TOTAL |
|---|---|---|---|---|
| | SHARES | AMOUNT | RETAINED EARNINGS | STOCKHOLDERS' EQUITY |
| <S> | <C> | <C> | <C> | <C> |
| Balance at December 31, 1995 | 27,814 | $2 | $ 936 | $ 938 |
| Net earnings | -- | -- | 1,910 | 1,910 |
| Recovery of distributions from stockholders | -- | -- | 600 | 600 |
| Distributions | -- | -- | (112) | (112) |
| Balance at December 31, 1996 | 27,814 | 2 | 3,334 | 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 |
| Net earnings | -- | -- | 24,471 | 24,471 |
| Distributions | -- | -- | (7,920) | (7,920) |
| Balance at December 31, 1998 | 27,814 | $2 | $27,674 | $27,676 |

</TABLE>

See accompanying notes to consolidated financial statements.



SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998
(IN THOUSANDS)

| | 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 |

Supplemental disclosure of non-cash investing and financing activities:

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

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

See accompanying notes to consolidated financial statements.





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.

### 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 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 is as follows (in thousands):

<TABLE>
<CAPTION>

| | 1996 | 1997 | 1998 |
|---|---|---|---|
| Weighted average shares used in basic computation.......... | 27,814 | 27,814 | 27,814 |
| Shares to fund stockholders distributions as described above............................................... | 1,253 | 1,253 | 1,253 |
| Dilutive stock options.................................. | -- | -- | 1,069 |
| Weighted average shares used in diluted computation........ | 29,067 | 29,067 | 30,136 |

</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 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.

| | |
|---|---|
| Pro forma net earnings | $24,273 |
| Pro forma net earnings per share | |
| Basic | $ .54 |
| Diluted | $ .50 |

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.

(2) PROPERTY AND EQUIPMENT

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

| | 1997 | 1998 |
|---|---|---|
| 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 |

(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.




(5) LONG-TERM BORROWINGS

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

| | 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,





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>

| <S> | 1996 <C> | 1997 <C> | 1998 <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.

Net sales to customers in the United States exceeded 90% for each of the years in the three year period ended December 31, 1998.

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.

During 1996, the Company had three manufacturers which accounted for 34.0%, 23.5% and 12.0% of total purchases, respectively. During 1997, the Company had two manufacturers which accounted for 21.7% and 15.0% of total purchases, respectively. During 1998, the Company had four manufacturers which accounted 15.4%, 14.2%, 12.1%, and 10.4% of total purchases, respectively.

Other than the foregoing, no other manufacturer accounted for 10.0% or more of the Company's total purchases for such period.

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

(9) BENEFIT PLAN

The Company has adopted a profit sharing plan covering all employees who are 21 years of age and have completed one year of service. 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>

| <S> | CAPITAL LEASES <C> | OPERATING LEASES <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.

The Company finances its production activities in part through the use of interest-bearing open purchase arrangements with certain of its Asian manufacturers. Interest expense incurred by the Company under these arrangements amounted to $620,000 in 1996, $1.4 million in 1997 and $2.9 million in 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, an approximate 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 30, 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.



SKECHERS U.S.A., INC.

CONSOLIDATED BALANCE SHEETS

MARCH 31, 1999

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS

<TABLE>
<CAPTION>

| <S> | ACTUAL <C> | PRO FORMA <C> |
|---|---|---|
| Current assets: | | |
| Cash | $ 989 | $ 989 |
| Trade accounts receivable, less allowance for bad debts and returns of $2,754 | 53,549 | 53,549 |
| Due from officers and employees | 52 | 52 |
| Other receivables | 1,899 | 1,899 |
| Total receivables | 55,500 | 55,500 |
| Inventories | 44,329 | 44,329 |
| Prepaid expenses and other current assets | 1,684 | 1,684 |
| Total current assets | 102,502 | 102,502 |
| Property and equipment, at cost, less accumulated depreciation and amortization | 15,286 | 15,286 |
| Intangible assets, at cost, less applicable amortization | 739 | 739 |
| Deferred tax assets | -- | 2,032 |
| Other assets, at cost | 1,854 | 1,854 |
| | $120,381 | $122,413 |

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

| | | |
|---|---|---|
| Current liabilities: | | |
| Short-term borrowings | $ 46,857 | $ 46,857 |
| Current installments of long-term borrowings | 744 | 744 |
| Current installments of notes payable to stockholder | 1,795 | 1,795 |
| Accounts payable | 20,279 | 20,279 |
| Accrued expenses | 5,845 | 5,845 |
| Distributions payable | 633 | 33,483 |
| Total current liabilities | 76,153 | 109,003 |
| Long-term borrowings, excluding current installments | 3,493 | 3,493 |
| Notes payable to stockholder, excluding current installments | 10,000 | 10,000 |
| Commitments and contingencies | | |
| Stockholders' equity (deficiency): | | |
| 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 |
| Retained earnings (accumulated deficit) | 30,733 | (85) |
| Total stockholders' equity (deficiency) | 30,735 | (83) |
| | $120,381 | $122,413 |

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.



SKECHERS, U.S.A., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

THREE-MONTH PERIODS ENDED MARCH 31, 1998 AND 1999

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | 1998 | 1999 |
|---|---|---|
| Net sales | $59,873 | $95,736 |
| Cost of sales | 37,390 | 59,038 |
| Gross profit | 22,483 | 36,698 |
| Royalty income, net | 132 | 49 |
| | 22,615 | 36,747 |
| Operating expenses: | | |
| Selling | 7,017 | 15,571 |
| General and administrative | 13,093 | 16,397 |
| | 20,110 | 31,968 |
| Earnings from operations | 2,505 | 4,779 |
| Other income (expense): | | |
| Interest | (1,484) | (1,754) |
| Other, net | 64 | 482 |
| | (1,420) | (1,272) |
| Earnings before income taxes | 1,085 | 3,507 |
| Income taxes | 33 | 78 |
| Net earnings | $ 1,052 | $ 3,429 |
| Pro forma operations data: | | |
| Earnings before income taxes | $ 1,085 | $ 3,507 |
| Income taxes | 434 | 1,403 |
| Net earnings | $ 651 | $ 2,104 |
| Net earnings per share: | | |
| Basic | $ 0.02 | $ 0.08 |
| Diluted | $ 0.02 | $ 0.07 |
| Weighted average shares: | | |
| Basic | 27,814 | 27,814 |
| Diluted | 29,996 | 29,919 |

=======     =======
</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.



SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

THREE-MONTH PERIOD ENDED MARCH 31, 1999

(UNAUDITED)

(IN THOUSANDS)

<TABLE>
<CAPTION>

| | COMMON STOCK | | RETAINED | TOTAL STOCKHOLDERS' |
|---|---|---|---|---|
| | SHARES | AMOUNT | EARNINGS | EQUITY |
| <S> | <C> | <C> | <C> | <C> |
| Balance at December 31, 1998................. | 27,814 | $ 2 | $27,674 | $27,676 |
| Net earnings.............................. | -- | -- | 3,429 | 3,429 |
| Distributions: | | | | |
| Cross Colours trademark................. | -- | -- | (350) | (350) |
| Cash.................................... | -- | -- | (20) | (20) |
| Balance at March 31, 1999.................... | 27,814 | $ 2 | $30,733 | $30,735 |

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.



SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE-MONTH PERIODS ENDED MARCH 31, 1998 AND 1999

(UNAUDITED)

(IN THOUSANDS)

<TABLE>
<CAPTION>
1998        1999

<S> <C> <C>

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $ 1,052 | $ 3,429 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | |
| Depreciation and amortization of property and equipment | 583 | 856 |
| Amortization of intangible assets | 25 | 32 |
| Provision (recovery) for bad debts and returns | 1,982 | (659) |
| Gain realized on distribution of intangibles | -- | (118) |
| (Increase) decrease in assets: | | |
| Receivables | (6,090) | (5,625) |
| Inventories | (2,017) | 21,061 |
| Prepaid expenses and other current assets | 4 | 932 |
| Other assets | 53 | 67 |
| Decrease in liabilities: | | |
| Accounts payable | (19,955) | (17,866) |
| Accrued expenses | (531) | (2,980) |
| Net cash used in operating activities | (24,894) | (871) |
| Cash flows used in investing activities -- capital expenditures | (1,170) | (946) |
| Cash flows from financing activities: | | |
| Net proceeds (payments) related to short-term borrowings | 24,759 | (7,538) |
| Payments related to long-term debt | (75) | (129) |
| Payments on notes payable to stockholder | -- | (449) |
| Distributions to stockholders | -- | (20) |
| Recovery of distributions from stockholders | 305 | -- |
| Net cash provided by (used in) financing activities | 24,989 | (8,136) |
| Net decrease in cash | (1,075) | (9,953) |
| Cash at beginning of period | 1,462 | 10,942 |
| Cash at end of period | $ 387 | $ 989 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 840 | $ 1,801 |
| Income taxes | 260 | -- |

</TABLE>

During the three month period ended March 31, 1999, the Company had non-cash distributions of intangibles of $350.

As of January 1, 1998, the Company declared distributions to stockholders amounting to $608.

See accompanying notes to unaudited condensed consolidated financial statements.



SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1999

(UNAUDITED)

(1) GENERAL

The unaudited operating results have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation for the periods. The results of operations for interim periods are not necessarily indicative of results to be achieved for full fiscal years.

(2) PRO FORMA INFORMATION

Pro forma balance sheet information as of March 31, 1999 has been presented to reflect the S Corporation distribution ("S Corporation Distribution") to be made to an amount equal to the previously earned and undistributed taxable S Corporation earnings aggregating approximately $32.9 million through March 31, 1999 as if such distribution had been made at March 31, 1999 and the Company's S Corporation status had been terminated at such date and deferred tax assets of $2.0 million which would have been recorded had the Company been subject to Federal and state income taxes as a C Corporation.

No adjustment has been made to give effect to the Company's earned and undistributed taxable S Corporation earnings for the period from April 1, 1999 through the S Corporation termination date, which would be distributed as part of the S Corporation Distribution.

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

<TABLE>
<CAPTION>

| | MARCH 31 | |
|---|---|---|
| | 1998 | 1999 |
| Historical income taxes | $ 33 | $78 |
| Pro forma adjustments: | | |
| Federal | 336 | 1,086 |
| State | 65 | 239 |
| Total pro forma adjustments | 401 | 1,325 |
| Total pro forma income taxes | $434 | $1,403 |

</TABLE>

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

<TABLE>
<CAPTION>

| <S> | MARCH 31 1998 <C> | 1999 <C> |
|---|---|---|
| Expected income tax expense................................ | $369 | $1,192 |
| State income tax, net of Federal benefit.................... | 65 | 211 |
| Total provision for pro forma income taxes........ | $434 | $1,403 |

</TABLE>

The Company reports pro-forma 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 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 15-month period based on the assumed initial public offering price of $14 per share (mid-point of the range), net of underwriting discounts.

The reconciliation of basis to diluted weighted average shares as of March 31, 1998 and 1999 is as follows (in thousands):

<TABLE>
<CAPTION>

| <S> | 1998 <C> | 1999 <C> |
|---|---|---|
| Weighted average shares used in basic computation........... | 27,814 | 27,814 |
| Shares to fund stockholders distributions described above................................................. | 1,253 | 990 |
| Dilutive stock options.................................. | 929 | 1,115 |
| Weighted average shares used in diluted computation......... | 29,996 | 29,919 |

</TABLE>

(3) COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). 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.

(4) COMPUTER SOFTWARE COSTS

The Company adopted Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" effective January 1, 1999. The adoption of SOP 98-1 did not have a significant impact on the Company's financial position or results of operations.

(5) START-UP COSTS

The Company adopted SOP 98-5, "Reporting on the Costs of Start-up Activities" effective January 1, 1999. The adoption of SOP 98-5 did not have a significant impact on the Company's financial position or results of operations.

(6) BANK BORROWINGS

The Company has available a secured line of credit, as amended in December 1998, permitting borrowings up to $120.0 million based upon eligible accounts receivable and inventories. The borrowings bear interest at the rate of prime plus 0.25% or at LIBOR (5.06% at March 31, 1999) plus 2.75% and the line of credit expires on December 31, 2002. The agreement provides for the issuance of letters of credit up to a maximum of $18.0 million, which decreases the amount available for borrowings under the agreement. The outstanding letters of credit at March 31, 1999 are $1.3 million. The Company paid a 1.0% per annum fee on the maximum letter of credit amount plus 0.50% of the difference between the revolving loan commitment less the maximum letter of credit amount. At March 31, 1999, the Company had available credit aggregating approximately $15.1 million. The agreement contains certain restrictive covenants, including tangible net worth and net working capital, as defined, with which the Company was in compliance at March 31, 1999.

At March 31, 1999, the Company had $2.6 million outstanding under a secured note payable with a financial institution, bearing interest at the rate of prime plus 1.0%, payable in monthly installments of $25,000 and due November 30, 2002.

(7) NOTES PAYABLE TO STOCKHOLDER

At March 31, 1999, the Company had outstanding a $10.0 million note payable to a stockholder which is subordinated to the line of credit and a $1.8 million note payable which is not subordinated to the line of credit. The notes bear interest at the prime rate (7.75% at March 31, 1999) and are due on demand. The note holder agreed not to call the subordinated note prior to April 1, 2000. Accordingly, the subordinated note has been shown as a long-term liability in the accompanying condensed consolidated financial statements. The Company recorded interest expense of approximately $275,000 and $219,000 related to these notes during the three-month periods ended March 31, 1998 and 1999, respectively.

(8) 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, an approximate 13,907 for 1 common stock split was authorized. The amendment and stock split has been reflected retroactively in the accompanying condensed consolidated financial statements.

On April 30, 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.



- ------------------------------------------------------------------------------

- ------------------------------------------------------------------------------

YOU MAY RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE INFORMATION 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.

-----------------

TABLE OF CONTENTS

<TABLE>
<CAPTION>


| <S> | PAGE <C> |
|---|---|
| Prospectus Summary.................... | 3 |
| Risk Factors.......................... | 9 |
| Use of Proceeds....................... | 19 |
| Prior S Corporation Status............ | 19 |
| Dividend Policy....................... | 20 |
| Capitalization........................ | 21 |
| Dilution.............................. | 22 |
| Selected Financial Data............... | 23 |
| Management's Discussion and Analysis of Financial Condition and Results of Operations....................... | 25 |
| Business.............................. | 40 |
| Management............................ | 61 |
| Certain Transactions.................. | 71 |
| Principal and Selling Stockholders.... | 74 |
| Description of Capital Stock.......... | 75 |
| Shares Eligible for Future Sale....... | 78 |
| Underwriting.......................... | 81 |
| Legal Matters......................... | 82 |
| Experts............................... | 83 |
| Additional Information................ | 83 |
| Index to Consolidated Financial Statements.......................... | F-1 |


</TABLE>

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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 PARTICIPATING 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.]

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:

| | |
|---|---|
| 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............................................ | $2,000,000* |

- ---------------
* 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

| 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
</TABLE>



<TABLE>
<CAPTION>
EXHIBIT
NUMBER                     DESCRIPTION OF EXHIBIT
- ---------                    ----------------------
<C>        <S>
3.2+       Bylaws
3.2(a)     Amendment to Bylaws
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
</TABLE>

| EXHIBIT NUMBER | DESCRIPTION OF EXHIBIT |
|---|---|
| 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 |
| 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 |

- ---------------

* 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.



## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused Amendment No. 2 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 May 11, 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. 2 to this Registration Statement has been signed by the following persons in the capacity indicated on May 11, 1999.

<TABLE>
<CAPTION>

| SIGNATURE | TITLE |
|---|---|
| /s/ ROBERT GREENBERG<br>Robert Greenberg | Chairman of the Board and Chief Executive Officer (Principal Executive Officer) |
| *<br>Michael Greenberg | President and Director |
| /s/ DAVID WEINBERG<br>David Weinberg | Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer) |
| *By: /s/ DAVID WEINBERG<br>David Weinberg<br>Attorney-in-fact | |

</TABLE>



## 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 |
|---|---|---|---|---|
| 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>



INDEX TO 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 |
| 3.2(a) | Amendment to Bylaws |
| 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
</TABLE>

<TABLE>
<CAPTION>

| EXHIBIT NUMBER | DESCRIPTION OF EXHIBIT |
|---|---|
| - ------- | ---------------------- |
| <C> | <S> |
| 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 |
| 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

EXHIBIT 2.1

AGREEMENT OF REORGANIZATION
AND PLAN OF MERGER

This Agreement of Reorganization and Plan of Merger (this "Agreement") dated this 7th day of May, 1999, by and between Skechers U.S.A., Inc., a Delaware corporation ("Skechers-Delaware") and Skechers U.S.A., Inc., a California corporation ("Skechers-California"), is made with respect to the following facts.

A. Skechers-Delaware and Skechers-California desire that Skechers-California merge with and into Skechers-Delaware, pursuant to Delaware law, with Skechers-Delaware being the surviving entity (the "Merger"), as set forth in the Registration Statement of Skechers-Delaware on Form S-1, No. 333-60065, including all amendments thereto (the "Registration Statement"), filed with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Act of 1933, as amended (the "Act").

B. Section 252 of the General Corporation Law of the State of Delaware,(the "DGCL") authorizes the merger of a Delaware corporation and a foreign corporation. Sections 1100 and 1108 of the California Corporations Code authorize the merger of California corporations into foreign corporations.

C. Skechers-Delaware's Certificate of Incorporation and Bylaws permit, and resolutions adopted by Skechers-Delaware's Board of Directors and Skechers-California's Board of Directors authorize this Agreement and the consummation of the Merger called for herein.

NOW THEREFORE, based upon the foregoing, and in consideration of the mutual promises and covenants contained herein, the parties to this Agreement agree as follows.

ARTICLE I - THE MERGER

1.01 The Merger; Surviving Corporation. Subject to the terms and conditions set forth in this Agreement, at the Effective Time (as defined in Section 1.02 below), Skechers-California shall be merged with and into Skechers-Delaware, pursuant to Section 252 of the DGCL, and the separate existence of Skechers-California shall cease. Skechers-Delaware shall be the surviving entity (the "Surviving Corporation") and shall continue to be governed by the DGCL.

1.02 Effective Time. In accordance with Sections 103(d) and 252 of the DGCL, the Merger shall become effective (the "Effective Time") upon the filing of a Certificate of Merger (the "Certificate of Merger") with the Secretary of State of the State of Delaware, or at such later time, not later than five business days thereafter, as may be specified in the Certificate of Merger. All other filings or recordings required by Delaware and California law in connection with the Merger shall also be made.



1.03 Effect of the Merger. The Merger shall have the effects set forth in section 259 and 260 of the DGCL.

ARTICLE II - THE SURVIVING CORPORATION

2.01 Name. The name of the surviving corporation shall be Skechers U.S.A., Inc. (sometimes referred to as the "Surviving Corporation").

2.02 Certificate of Incorporation and Bylaws. The Certificate of Incorporation and Bylaws of Skechers-Delaware, as in effect immediately prior to the Effective Time, shall be the Certificate of the Incorporation and Bylaws of the Surviving Corporation unless and until amended in accordance with their terms and applicable law.

2.03 Officers and Directors. The officers of Skechers-Delaware immediately prior to the Effective Time shall continue as officers of the Surviving Corporation and remain officers until their successors are duly appointed or their resignation, removal or death. The directors of Skechers-Delaware immediately prior to the Effective Time shall continue as directors of the Surviving Corporation and shall remain directors until their successors are duly elected and qualified or their prior resignation, removal or death.

ARTICLE III - THE DISAPPEARING CORPORATION

3.01 Conversion of Common Stock Skechers-California. At the Effective Time, each issued and outstanding share of the Common Stock of Skechers-California shall be converted into 13,907.0748 shares of Skechers-Delaware's Class B Common Stock, $.001 par value per share (the "Class B Common Stock"). At the Effective Time, the one share of Skechers-Delaware Common Stock owned by Skechers-California shall be canceled.

3.02 Skechers - California Options, Stock Purchase Rights, Convertible Securities

(i) Upon the Effective Date of the Merger, the Surviving Corporation shall assume the obligations of Skechers - California under, and continue, the option plans (including, without limitation, the 1998 Amended and Restated Stock Option, Deferred Stock and Restricted Stock Plan and the Amended and Restated 1998 Employee Stock Purchase Plan) and all other employee benefit plans of Skechers - California. Each outstanding and unexercised option, other right to purchase, or security convertible into or exercisable for, Skechers - California Common Stock (a "Right") shall become, subject to the provisions in paragraph (iii) hereof, an option, right to purchase or a security convertible into the Surviving Corporation's Class A Common Stock, $.001 par value per Share (the "Class A Common Stock"), on the basis of 13,907.0748 shares of the Surviving Corporation's Class A Common Stock for each one share of Skechers - California Common Stock issuable pursuant to any such Right, on the same terms and condition and at an exercise price equal to the exercise price applicable to any such Skechers - California Right at the Effective Date of the Merger divided by 13,907.0748. This paragraph 3.2(i) shall not apply to



currently issued and outstanding Skechers - California Common Stock. Such Common Stock is subject to paragraph 3.01 hereof.

(ii) A number of shares of the Surviving Corporation's Class A Common Stock shall be reserved for issuance upon the exercise of options, stock purchase rights and convertible securities equal to the number of shares of Skechers - California Common Stock so reserved immediately prior to the Effective Date of the Merger.

(iii) The assumed Rights shall not entitle any holder thereof to a fractional share upon exercise or conversion (unless the holder was entitled to a fractional interest immediately prior to the Merger). Any fractional share interests to which a holder of an assumed Right would otherwise be entitled upon exercise or conversion shall be disregarded.

Notwithstanding the foregoing, with respect to options issued under the Skechers - California 1998 Amended and Restated Stock Option, Deferred Stock and Restricted Stock Plan that are assumed in the Merger, the number of shares of Common Stock to which the holder would be otherwise entitled upon exercise of each such assumed option following the Merger shall be rounded up or down to the nearest whole number, as applicable, and the exercise price shall be rounded up or down to the nearest whole cent, as applicable. In addition, no "additional benefits" (within the meaning of Section 424(a)(2) of the Internal Revenue Code of 1986, as amended) shall be accorded to the optionees pursuant to the assumption of their options.

3.03 Issuance of Shares.

(i) Skechers-Delaware shall designate an exchange agent (the "Exchange Agent") to act as such in connection with the issuance of certificates representing Common Stock pursuant to this Agreement.

(ii) As soon as practicable after the Effective Time, Skechers-Delaware shall cause the Exchange Agent to distribute to each owner of Skechers-California certificates representing the number of shares of Common Stock to which such owner is entitled pursuant to section 3.01 of this Agreement.

3.04 Characterization of Merger. For federal income tax purposes, the conversion of interests in Skechers-California pursuant to this Article III shall be deemed a reorganization and mere change in place of organization pursuant to section 368 (a)(1) (F) of the Internal Revenue Code of 1986.



ARTICLE IV - TRANSFER AND CONVEYANCE OF ASSETS AND ASSUMPTION OF LIABILITIES

4.01 Transfer, Conveyance and Assumption. At the Effective Time, Skechers-Delaware shall continue in existence as the Surviving Corporation, and without further action on the part of Skechers-California or Skechers-Delaware, succeed to and possess all the rights, privileges and powers of Skechers-California, and all the assets and property of whatever kind and character of Skechers-California shall vest in Skechers-Delaware without further act or deed. Thereafter, Skechers-Delaware, as the Surviving Corporation, shall be liable for all of the liabilities and obligations of Skechers-California, and any claim or judgment against Skechers-California may be enforced against Skechers-Delaware, as the Surviving Corporation, in accordance with Section 259 of the DGCL.

4.02 Further Assurances. If at any time Skechers-Delaware shall consider or be advised that any further assignment, conveyance or assurance is necessary or advisable to vest, perfect or confirm of record in it the title to any property or right of Skechers-California, or otherwise to carry out the provisions hereof, members of Skechers-California as of the Effective Time shall execute and deliver any and all proper deeds, assignments and assurances, and do all things necessary and proper to vest, perfect or convey title to such property or right in Skechers-Delaware and otherwise to carry out the provisions hereof.

ARTICLE V - REPRESENTATIONS AND WARRANTIES OF SKECHERS-CALIFORNIA

Skechers-California represents and warrants to Skechers-Delaware as follows:

5.01 Validity of Actions. Skechers-California (i) is a corporation duly formed, validly existing and in good standing under the laws of the State of California, (ii) has full power and authority to enter into this Agreement and to carry out all acts contemplated by it. This Agreement has been duly executed and delivered on behalf of Skechers-California. Skechers-California has received all necessary authorization to enter into this Agreement, and this Agreement is a legal, valid and binding obligation of Skechers-California, enforceable against Skechers-California in accordance with its terms. The execution and delivery of this Agreement and consummation of the transactions contemplated by it will not violate any provision of Skechers-California's Articles of Incorporation or Bylaws, nor violate, conflict with or result in any breach of any of the terms, provisions or conditions of, or constitute a default or cause acceleration of, any indebtedness under any agreement or instrument to which Skechers-California is a party or by which it or its assets may be bound, or cause a breach of any applicable Federal or state law or governmental regulation, or any applicable order, judgment, writ, award, injunction or decree of any court or governmental instrumentality.

ARTICLE VI - REPRESENTATIONS AND WARRANTIES
OF SKECHERS-DELAWARE

Skechers-Delaware represents and warrants to Skechers-California as follows:

6.01. Validity of Actions. Skechers-Delaware (i) is duly organized, validly existing and in good standing under the laws of the State of Delaware, and (ii) has full power and authority to enter into this Agreement and to carry out all acts contemplated by it. This Agreement has been duly executed and delivered on behalf of Skechers-Delaware, and Skechers-Delaware has received all necessary authorization. This Agreement is a legal, valid and binding obligation of Skechers-Delaware, enforceable against Skechers-Delaware in accordance with its terms. The execution and delivery of this Agreement and consummation of the transactions contemplated by it will not violate any provision of the Certificate of Incorporation or Bylaws of Skechers-Delaware nor violate, conflict with or result in any breach of any of the terms, provisions or conditions of, or constitute a default or cause acceleration of, any indebtedness under any agreement or instrument to which Skechers- Delaware is a party or by which it or its assets may be bound, or cause a breach of any applicable federal or state law or regulation, or any applicable order, judgment, writ, award, injunction or decree of any court or governmental instrumentality.

6.02. Capital Stock of Skechers-Delaware. The authorized capital stock of Skechers-Delaware consists of One Hundred Sixty Million (160,000,000) shares of Common Stock, of which One Hundred Million (100,000,000) Shares are designated as Class A Common Stock and Sixty Million (60,000,000) are designated as Class B Common Stock, and Ten Million (10,000,000) shares of Preferred Stock. The shares of Class B Common Stock of Skechers-Delaware to be delivered to the shareholders of Skechers-California pursuant to this Agreement have been duly and validly authorized, and when issued and delivered, will be fully paid and nonassessable.

ARTICLE VII - FURTHER ACTIONS

7.01 Additional Documents. At the request of any party, each party will execute and deliver any additional documents and perform in good faith such acts as reasonably may be required in order to consummate the transactions contemplated by this Agreement.

ARTICLE VIII - CONDITIONS TO THE MERGER

The obligation of Skechers-Delaware and of Skechers-California to consummate the Merger shall be subject to compliance with or satisfaction of the following conditions:

8.01 Bring Down. The representations and warranties set forth in this Agreement shall be true and correct in all material respects at, and as of, the Effective Time as if then made (except for those representations and warranties made as of a given date, which shall continue to be true and correct as of such given date) as of the Effective Time.



8.02 No Statute, Rule or Regulation Affecting. At the Effective Time, there shall be no statute, or regulation enacted or issued by the United States or any State, or by a court, which prohibits or challenges the consummation of the Merger.

8.03 Effectiveness of Registration Statement. As soon as possible following the Effective Time, the Registration Statement shall have been declared effective, no stop order suspending the effectiveness of the Registration Statement shall have been issued, no proceedings for such purpose shall have been initiated, and all necessary approvals under state securities or blue sky laws shall have been received.

8.04 Satisfaction of Conditions. All other conditions to the Merger set forth herein shall have been satisfied.

## ARTICLE IX - TERMINATION; AMENDMENT; WAIVER

9.01 Termination. This Agreement and the transactions contemplated hereby may be terminated at any time prior to the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, (i) by mutual consent of the Board of Directors of Skechers-Delaware and the Board of Directors of Skechers-California, or (ii) by action of the Board of Directors of Skechers-Delaware or of the Board of Directors of Skechers-California in the event that the Merger is not consummated prior to July 31, 1999, or such later date as the parties shall mutually agree in writing.

9.02 Amendment. The parties hereto may, by written agreement, amend this Agreement at any time prior to the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, such amendment to be approved by the Board of Directors of Skechers-California agreeing to such amendment with Skechers-Delaware.

9.03 Waiver. At any time prior to the Effective Time, any party to this Agreement may extend the time for the performance of any of the obligations or other acts of any other party hereto, or waive compliance with any of the agreements of any other party or with any condition to the obligations hereunder, in each case only to the extent that such obligations, agreements and conditions are intended for its benefit.

## ARTICLE X - MISCELLANEOUS

10.01 Expenses. If the Merger becomes effective, all of the expenses incurred in connection with the Merger shall be paid by Skechers-Delaware.

10.02 Notice. Except as otherwise specifically provided, any notices to be given hereunder shall be in writing and shall be deemed given upon personal delivery or upon mailing thereof, if mailed by certified mail, return receipt requested, to the following addresses (or to such other address or addresses shall be specified in any notice given):



In the case of Skechers-Delaware:
Skechers U.S.A., Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266
(310) 318-3100

In the case of Skechers-California:
Skechers U.S.A., Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266
(310) 318-3100

10.03 Non-Assignability. This Agreement shall not be assignable by any of the parties hereto.

10.04 Entire Agreement. This Agreement contains the parties' entire understanding and agreement with respect to its subject matter, and any and all conflicting or inconsistent discussions, agreements, promises, representations and statements, if any, between the parties or their representatives that are not incorporated in this Agreement shall be null and void and are merged into this Agreement.

10.05 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to conflicts of law principles.

10.06 Headings. The various section headings are inserted for purposes of reference only and shall not affect the meaning or interpretation of this Agreement or any provision hereof.

10.07 Gender; Number. All references to gender or number in this Agreement shall be deemed interchangeably to have a masculine, feminine, neuter, singular or plural meaning, as the sense of the context requires.

10.08 Severability. The provisions of this Agreement shall be severable, and any invalidity, unenforceability or illegality of any provision or provisions of this Agreement shall not affect any other provision or provisions of this Agreement, and each term and provision of this Agreement shall be construed to be valid and enforceable to the full extent permitted by law.

*****



IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed by an officer duly authorized to do so, all as of the day and year first above written.

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

By: /s/ Robert Greenberg
---------------------------------
Name: Robert Greenberg
Title: Chief Executive Officer

By: /s/ David Weinberg
---------------------------------
Name: David Weinberg
Title: Chief Financial Officer

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

By: /s/ Robert Greenberg
---------------------------------
Name: Robert Greenberg
Title: Chief Executive Officer

EXHIBIT 3.1

STATE OF DELAWARE

OFFICE OF THE SECRETARY OF STATE PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "SKECHERS U.S.A., INC.", FILED IN THIS OFFICE ON THE THIRTIETH DAY OF APRIL, A.D. 1999, AT 9 O'CLOCK A.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

[SEAL "Office of the
Secretary of State
of the State of Delaware"] /s/ EDWARD J. FREEL

-----------------------------------

Edward J. Freel, Secretary of State

2902395 8100 AUTHENTICATION: 9721504

991173725 DATE: 05-03-99

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

SKECHERS U.S.A., INC.

SKECHERS U.S.A, INC., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is SKECHERS U.S.A., INC. The corporation was originally incorporated under the same name and the original Certificate of Incorporation of the corporation was filed with the Secretary of State of the State of Delaware on May 28, 1998, as amended July 18, 1998.

2. Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, this Restated Certificate of Incorporation restates and integrates and further amends the provisions of the Certificate of Incorporation of this corporation.

3. The text of the Restated Certificate of Incorporation as heretofore amended or supplemented is hereby restated and further amended to read in its entirety as follows:

ARTICLE I

The name of this corporation is SKECHERS U.S.A., INC. (hereinafter called the "Corporation").

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is at 1013 Centre Road, Wilmington, Delaware, 19805, County of New Castle, and the name of its registered agent at that address is Corporation Services Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE IV

Section 1. Number of Authorized Shares. The total number of shares of stock which the Corporation shall have the authority to issue shall be One Hundred Seventy Million (170,000,000) shares. The Corporation shall be authorized to issue two classes of shares of stock, designated, "Common Stock" and "Preferred Stock." The Corporation shall be authorized to issue One Hundred Sixty Million (160,000,000) shares of Common Stock, consisting of 100 Million (100,000,000) shares of Class A Common Stock, $.001 par value per share (the "Class A Common Stock"), and Sixty Million (60,000,000) shares of Class B Common Stock, $.001 par value per share (the "Class B Common Stock"), and Ten Million (10,000,000) shares of Preferred Stock, $.001 par value per share.

Section 2. Preferred Stock. The Board of Directors of the Corporation may by resolution authorize the issuance of shares of Preferred Stock from time to time in one or more series. The Corporation may reissue shares of Preferred Stock that are redeemed, purchased, or otherwise acquired by the Corporation unless otherwise provided by law. The Board of Directors is hereby authorized to fix or alter the designations, powers and preferences, and relative, participating, optional or other rights, if any, and qualifications, limitations or restrictions thereof, including, without limitation, dividend rights (and whether dividends are cumulative), conversion rights, if any, voting rights (including the number of votes, if any, per share, as well as the number of members, if any, of the Board of Directors or the percentage of members, if any, of the Board of Directors each class or series of Preferred Stock may be entitled to elect), rights and terms of redemption (including sinking fund provisions, if any), redemption price and liquidation preferences of any wholly unissued series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, and to increase or decrease the number of shares of any such series subsequent to the issuance of shares of such series, but not below the number of shares of such series then outstanding.

Section 3. Common Stock.

A. Voting Rights.

Subject to applicable law and the rights of any outstanding series of Preferred Stock to vote as a separate class or series, the shares of Class A Common Stock and Class B Common Stock shall vote together as a single class and shall have the following voting rights: (i) each share of Class A Common Stock shall entitle the holder thereof to one (1) vote upon all matters upon which stockholders shall have the right to vote; and (ii) each share of Class B Common Stock shall entitle the holder thereof to ten (10) votes upon all matters upon which stockholders shall have the right to vote, subject to Section 3.E.8. of this Article IV. The authorized number of shares of Class A Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding or reserved for issuance upon conversion of the Class B Common Stock or any other class or series of outstanding stock) by the affirmative vote of the



holders of Common Stock entitled to cast a majority of the total votes entitled to be cast by the holders of the Common Stock, voting as a single class, without a separate class vote of the holders of the Class A Common Stock.

The Corporation may, as a condition to counting the votes cast by any holder of shares of Class B Common Stock, require proof as set forth in Section 3.E.8 of this Article IV that the shares of Class B Common Stock held by such holder have not been converted into shares of Class A Common Stock.

B. Dividends and Distributions.

Subject to the preferential and other dividend rights of any outstanding series of Preferred Stock, holders of Class A Common Stock and Class B Common Stock shall be entitled to such dividends and other distributions in cash, stock or property of the Corporation as may be declared thereon by the Board of

Directors from time to time out of assets or funds of the Corporation legally available therefor. No dividend or other distribution may be declared or paid on any share of Class A Common Stock unless a like dividend or other distribution is simultaneously declared or paid, as the case may be, on each share of Class B Common Stock, nor shall any dividend or other distribution be declared or paid on any share of Class B Common Stock unless a like dividend or other distribution is simultaneously declared or paid, as the case may be, on each share of Class A Common Stock, in each case without preference or priority of any kind; provided, however, that all dividends and distributions on the Class A Common Stock and Class B Common Stock payable in shares of Common Stock of the Corporation shall be made in shares of Class A Common Stock and Class B Common Stock, respectively. In no event will shares of either class of Common Stock be split, divided or combined unless the outstanding shares of the other class of Common Stock shall be proportionately split, divided or combined.

In the event of a transaction as a result of which the shares of Class A Common Stock are converted into or exchanged for one or more other securities, cash or other property (a "Class A Conversion Event"), then from and after such Class A Conversion Event, a holder of Class B Common Stock shall be entitled to receive, upon the conversion of such Class B Common Stock pursuant to Section 3.E. of this Article IV, the amount of such securities, cash and other property that such holder would have received if the conversion of such Class B Common Stock had occurred immediately prior to the record date (or if there is no record date, the effective date) of the Class A Conversion Event and if the securities, cash or other property that the Class A Common Stock may be converted into or exchanged for in a Class A Conversion Event is dependant upon the holder of the Class A Common Stock making an election, the holder of the Class A Common Stock had failed to make an election. This paragraph shall be applicable in the same manner to all successive conversions or exchanges of securities issued pursuant to any Class A Conversion Event. No adjustments in respect of dividends shall be made upon the conversion of any share of Class B Common Stock; provided, however, that if a share shall be converted after the record date for the payment of a dividend or other distribution on shares of Class B Common



Stock but before such payment, then the record holder of such share at the close of business on such record date shall be entitled to receive the dividend or other distribution payable on such share of Class B Common Stock on the payment date notwithstanding the conversion thereof.

C. Options, Rights or Warrants.

Subject to Section 3.B. of this Article IV, the Corporation shall not and shall not be entitled to issue additional shares of Class B Common Stock, or issue options, rights or warrants to subscribe for or purchase additional shares of Class B Common Stock, except that the Corporation may make a pro rata offer to all holders of Common Stock of rights to subscribe for additional shares of the class of Common Stock held by them. The Corporation may make offerings of options, rights or warrants to subscribe for or purchase shares of any class or classes of capital stock (other than Class B Common Stock) to all holders of Class A Common Stock or Class B Common Stock if an identical offering is made simultaneously to all the holders of the other class of Common Stock. All offerings of options, rights or warrants shall offer the respective holders of Class A Common Stock and Class B Common Stock the right to subscribe or purchase at the same consideration per share.

D. Merger or Consolidation.

In the event of a merger or consolidation of the Corporation with or into another entity (whether or not the Corporation is the surviving entity), the holders of each share of Class A Common Stock and Class B Common Stock shall be entitled to receive the same per share consideration as the per share consideration, if any, received by the holders of each share of the other class of Common Stock; provided that, if such consideration shall consist in any part of voting securities (or of options, rights or warrants to purchase, or of securities convertible into or exchangeable for, voting securities), then the Corporation may provide in the applicable merger or such other agreement for the holders of shares of Class B Common Stock to receive, on a per share basis, voting securities with ten (10) times the number of votes per share as those voting securities to be received by the holders of shares of Class A Common Stock (or options, rights or warrants to purchase, or securities convertible into or exchangeable for, voting securities with ten (10) times the number of votes per share as those voting securities issuable upon exercise of the options, rights or warrants to be received by the holders of the shares of Class A Common Stock, or into which the convertible or exchangeable securities to be received by the holders of the shares of Class A Common Stock may be converted or exchanged).

E. Conversion of Class B Common Stock.

1. Voluntary Conversion.

Each share of Class B Common Stock shall be convertible, at the option of its record holder, into one validly issued, fully paid and non-assessable share of Class A Common Stock



at any time.

2. Voluntary Conversion Procedure.

At the time of a voluntary conversion, the record holder of shares of Class B Common Stock shall deliver to the principal office of the Corporation or any transfer agent for shares of the Class A Common Stock (i) the certificate or certificates representing the shares of Class B Common Stock to be converted, duly endorsed in blank or accompanied by proper instruments of transfer, and (ii) written notice to the Corporation stating that the record holder elects to convert such share or shares and stating the name or names and denominations in which the certificate or certificates representing the shares of Class A Common Stock issuable upon the conversion are to be issued and including instructions for the delivery thereof. Conversion shall be deemed to have been effected at the time when delivery is made to the principal office of the Corporation or the office of any transfer agent for shares of Class A Common Stock of such written notice and the certificate or certificates representing the shares of Class B Common Stock to be converted, and as of such time, each Person (as hereinafter defined) named in such written notice as the Person to whom a certificate representing shares of Class A Common Stock is to be issued shall be deemed to be the holder of record of the number of shares of Class A Common Stock to be evidenced by that certificate. Upon such delivery, the Corporation or its transfer agent shall promptly issue and deliver a certificate or certificates representing the number of shares of Class A Common Stock to which such record holder is entitled by reason of such conversion, and shall cause such shares of Class A Common Stock to be registered in the name of the record holder.

3. Automatic Conversion.

(a) Subject to Section 3.E.3.(b) of this Article IV, in the event of any Transfer (as hereinafter defined) of any share of Class B Common Stock to any Person other than a Permitted Transferee (as hereinafter defined), such share of Class B Common Stock shall automatically, without any further action, convert into one share of Class A Common Stock.

(b) Notwithstanding anything to the contrary set forth in this Article IV, Section 3, a holder of shares of Class B Common Stock may pledge such holder's shares of Class B Common Stock to a financial institution pursuant to a bona fide pledge of such shares of Class B Common Stock as collateral security for any indebtedness or other obligation of any Person (the "Pledged Stock") due to the pledgee or its nominee; provided, however, that (i) such shares shall not be voted by or registered in the name of the pledgee and shall remain subject to the provisions of this Article IV, Section 3.E. and (ii) upon any foreclosure, realization or other similar action by the pledgee, such Pledged Stock shall automatically convert into shares of Class A Common Stock on a share for share basis unless all right, title and interest in such Pledged Stock shall be Transferred concurrently by the pledgee or its nominee or the purchaser in such foreclosure to a Permitted Transferee.

(c) The foregoing automatic conversion events described in this Article IV, Section 3.E.3 shall be referred to hereinafter as an "Event of Automatic Conversion." The determination of whether an Event of Automatic Conversion shall have occurred will be made by the Board of Directors or a duly authorized committee thereof in accordance with Article IV, Section 3.E.8 below.

4. Automatic Conversion Procedure.

Any conversion pursuant to an Event of Automatic Conversion shall be deemed to have been effected at the time the Event of Automatic Conversion occurred (the "Conversion Time"). At the Conversion Time, the certificate or certificates that represented immediately prior thereto the shares of Class B Common Stock which were so converted (the "Converted Class B Common Stock") shall, automatically and without further action, represent the same number of shares of Class A Common Stock. Holders of Converted Class B Common Stock shall deliver their certificates, duly endorsed in blank or accompanied by proper instruments of transfer, to the principal office of the Corporation or the office of any transfer agent for shares of the Class A Common Stock, together with a written notice setting out the name or names (with addresses) and denominations in which the certificate or certificates representing such shares of Class A Common Stock are to be issued and including instructions for delivery thereof. Upon such delivery, the Corporation or its transfer agent shall promptly issue and deliver at such stated address to such holder of shares of Class A Common Stock a certificate or certificates representing the number of shares of Class A Common Stock to which such holder is entitled by reason of such conversion, and shall cause such shares of Class A Common Stock to be registered in the name of such holder. The Person entitled to receive the shares of Class A Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Class A Common Stock at and as of the Conversion Time, and the rights of such Person as a holder of shares of Class B Common Stock that have been converted shall cease and terminate at and as of the Conversion Time, in each case without regard to any failure by such holder to deliver the certificates or the notice required by this Section.

5. Unconverted Shares.

In the event of the conversion of less than all the shares of Class B Common Stock evidenced by a certificate surrendered to the Corporation in accordance with the procedures of this Section 3.E., the Corporation shall execute and deliver to, or upon the written order of, the holder of such unconverted shares, without charge to such holder, a new certificate evidencing the number of shares of Class B Common Stock not converted.

6. Retired Shares.

Shares of Class B Common Stock that are converted into shares of Class A Common Stock as provided herein shall be retired and canceled and the Corporation shall take all such actions as



are necessary to cause such shares to have the status of authorized but unissued shares of Class B Common Stock.

7. Reservation.

The Corporation shall at all times reserve and keep available, out of its authorized and unissued shares of Class A Common Stock, for the purposes of effecting conversions, such number of duly authorized shares of Class A Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Class B Common Stock. All the shares of Class A Common Stock so issuable shall, when so issued, be duly and validly issued, fully paid and non-assessable, and free from liens and charges with respect to such issuance.

8. Determination of Voting Rights and Event of Automatic Conversion.

The Board of Directors of the Corporation or a duly authorized committee thereof shall have the power to determine, in good faith after reasonable inquiry, whether an Event of Automatic Conversion has occurred with respect to any share of Class B Common Stock. A determination by the Board of Directors of the Corporation or such committee that an Event of Automatic Conversion has occurred shall be conclusive. As a condition to counting the votes cast by any holder of shares of Class B Common Stock at any annual or special meeting of stockholders, or in connection with any written consent of stockholders, or as a condition to registration of transfer of shares of Class B Common Stock, or for any other purpose, the Board of Directors or a duly authorized committee thereof, in its discretion, may require the holder of such shares to furnish such affidavits or other proof as the Board of Directors or such committee deems necessary or advisable to determine whether an Event of Automatic Conversion shall have occurred. If the Board of Directors or such committee shall determine that a holder has substantially failed to comply promptly with any request by the Board of Directors or such committee for such proof, the shares held by such holder shall be entitled to one (1) vote per share until such time as the Board of Directors or such committee shall determine that such holder has complied with such request. The Board of Directors or a duly authorized committee thereof may exercise the authority granted by this Article IV, Section 3.E.8 through duly authorized officers or agents of the Corporation.

9. Definitions.

For purposes of this Article IV, Section E:

(a) Affiliate. The term "Affiliate" shall mean, as to any Person, (i) any other person that, directly or indirectly , is in control of, controlled by or is under common control with such Person, (ii) any corporation or organization (other than the Corporation or a majority owned subsidiary of the Corporation) of which such Person is an officer or partner or is,



directly or indirectly, the beneficial owner of 10% or more of any class of voting securities, or in which such Person has a substantial beneficial interest, (iii) any trust or other estate in which such Person has a substantial beneficial interest or as to which such Person serves as a trustee or in a similar fiduciary capacity, (iv) any relative or spouse of such Person who has the same home as such Person, or (v) an officer of the Corporation or any of its subsidiaries.

(b) Beneficial Owner. A Person shall be deemed the "Beneficial Owner" of, and to "Beneficially Own" and to have "Beneficial Ownership" of, any share (i) which such Person has the power to vote or dispose, or to direct the voting or disposition of, directly or indirectly, through any agreement, arrangement or understanding (written or oral), or (ii) which such Person has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (written or oral), or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise.

(c) Nominee. The term "Nominee" shall mean a Person that is acting as a bona fide nominee for the registration of record ownership of securities Beneficially Owned by another Person.

(d) Permitted Transferee. The term "Permitted Transferee" shall mean (i) all holders of the Series B Common Stock outstanding immediately prior to the Corporation's initial public offering of any class of its capital stock, (ii) any Person that is an Affiliate, spouse or descendant of any such holder, their estates or trusts for their benefit.

(e) Person. The term "Person" means any natural person, corporation, association, partnership, limited liability company, organization, business, government or political subdivision thereof or governmental agency.

(f) Transfer. The term "Transfer" shall mean any sale, transfer (including a transfer made in whole or in part without consideration as a gift), exchange, assignment, pledge, encumbrance, alienation or any other disposition or hypothecation of record ownership or of Beneficial

Ownership of any share, whether by operation of law or otherwise; provided, however, that (i) a pledge of any share made in accordance with the provisions of Article IV, Section 3.E.3.(b). and (ii) a grant of a revocable proxy, written consent or other authorization with respect to any share to a Person designated by the Board of Directors or management of the Corporation who is soliciting proxies on behalf of the Corporation shall not be considered a "Transfer"; and provided, further, that in the case of any transferee of record ownership that is a Nominee, such Transfer of record ownership shall be deemed to be made to the Person or Persons for whom such Nominee is acting.



10. Stock Legend.

The Corporation shall include a legend on the certificates representing shares of Class B Common Stock stating the such shares are subject to automatic conversion in certain circumstances as set forth in this Article IV, Section 3.E.

11. Taxes.

The issuance of a certificate representing shares of Class A Common Stock issued upon conversion of shares of Class B Common Stock shall be made without charge to the holder of such shares for any stamp or other similar tax in respect of such issuance. However, if any such certificate is to be issued in a name other than that of the record holder of the shares of Class B Common Stock converted, the Person or Persons requesting the issuance thereof shall pay to the Corporation the amount of any tax which may be payable in respect of any Transfer involved in such issuance or shall establish to the satisfaction of the Corporation that such tax has been paid or is not required to be paid.

F. Liquidation.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, after distribution in full of the preferential and/or other amounts to be distributed to the holders of shares of any outstanding series of Preferred Stock, the holders of shares of Class A Common Stock and Class B Common Stock shall be entitled to receive all of the remaining assets of the Corporation available for distribution to its stockholders, ratably in proportion to the number of shares of Common Stock held by them. In any such distribution shares of Class A Common Stock and Class B Common Stock shall be treated equally on a per share basis.

ARTICLE V

Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in Delaware General Corporation Law) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

ARTICLE VI

The number of directors of the Corporation shall be fixed from time to time by or in the manner provided in the Bylaws of the Corporation or amendment thereof duly adopted by the Board of Directors or by the stockholders of the Corporation. Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.



ARTICLE VII

No action, which has not been previously approved by the Board of Directors, shall be taken by the stockholders except at an annual meeting or a special meeting of the stockholders.

ARTICLE VIII

To the fullest extent permitted by the Delaware General Corporation Law, as the same exists or may hereafter be amended (provided that the effect of any such amendment shall be prospective only) the "Delaware Law"), a director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of his or her fiduciary duty as a director. The Corporation shall indemnify, in the manner and to the fullest extent permitted by the Delaware Law (but in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than permitted prior thereto), any person (or the estate of any person) who is or was a party to, or is threatened to be made a party to, any threatened, pending or completed action, suit or proceeding, whether or not by or in the right of the Corporation, and whether civil, criminal, administrative, investigative or otherwise, by reason of the fact that such person is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise. The Corporation to the fullest extent permitted by the Delaware Law, may purchase and maintain insurance on behalf of any such person against any liability which may be asserted against such person. The Corporation may create a trust fund, grant a security interest or use other means (including without limitation a letter of credit) to ensure the payment of such sums as may become necessary or desirable to effect the indemnification as provided herein. To the fullest extent permitted by the Delaware Law, the indemnification provided herein shall include expenses as incurred (including attorneys' fees), judgments, finds and amounts paid in settlement and any such expenses shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the person seeking indemnification to repay such amounts if it is ultimately determined that he or she is not entitled to be indemnified. Notwithstanding the foregoing or any other provision of this Article, no advance shall be made by the Corporation if a determination is reasonably and promptly made by the Board by a majority vote of a quorum of disinterested Directors, or (if such a quorum is not obtainable or, even if obtainable, a quorum of disinterested Directors so directs) by independent legal counsel to the Corporation, that, based upon the facts known to the Board or such counsel at the time such determination is made, (a) the party seeking an advance acted in bad faith or deliberately breached his or her duty to the Corporation or its stockholders, and (b) as a result of such actions by the party seeking an advance, it is more likely than not that it will ultimately be determined that such party is not entitled to indemnification pursuant to the provisions of this Article VIII. The indemnification provided herein shall not be deemed to limit the right of the Corporation to indemnify any other person for any such expenses to the fullest extent permitted by the Delaware Law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from the



Corporation may be entitled under any agreement, the Corporation's Bylaws, vote of stockholders or disinterested directors, or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. The Corporation may, but only to the extent that the Board of Directors may (but shall not be obligated to) authorize from time to time, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Article VIII as it applies to the indemnification and advancement of expenses of directors and officers of the Corporation.

## ARTICLE IX

The Board of Directors is expressly authorized to amend, alter or repeal the Bylaws of the Corporation.

IN WITNESS WHEREOF, SKECHERS, U.S.A., INC. has caused this Restated Certificate of Incorporation to be signed by Philip Paccione, Secretary, its authorized officer, this 29th day of April, 1999.

SKECHERS U.S.A., INC.

By: /s/ PHILIP PACCIONE
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Philip Paccione
Title: Secretary

Exhibit 4.1

TEMPORARY CERTIFICATE -- EXCHANGEABLE FOR DEFINITIVE ENGRAVED CERTIFICATE
WHEN READY FOR DELIVERY

- ------------------ ------------------
NUMBER SHARES
SI
- ------------------- ------------------

SKECHERS U.S.A., INC.

INCORPORATED UNDER THE LAWS
OF THE STATE OF DELAWARE

CUSIP 830566 10 5

THIS CERTIFIES THAT

SEE REVERSE SIDE FOR CERTAIN
DEFINITIONS AND LEGENDS

IS THE RECORD HOLDER OF

FULLY PAID AND NONASSESSABLE SHARES OF THE CLASS A COMMON STOCK,
PAR VALUE $0.01 PER SHARE, OF

SKECHERS U.S.A., INC.

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney on surrender of this certificate properly endorsed. This certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

/s/ PHILIP G. PACCIONE /s/ ILLEGIBLE
- ---------------------- [SEAL] ---------------------
SECRETARY PRESIDENT

COUNTERSIGNED AND REGISTERED:
AMERICAN STOCK TRANSFER & TRUST COMPANY
TRANSFER AGENT AND REGISTRAR

AUTHORIZED SIGNATURE

The Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Such request shall be made to the Corporation's Secretary at the principal office of the Corporation.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN, OR DESTROYED THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

The following abbreviations, when used in the inscription on the face of

this certificate, shall be construed as though they were written out in full
according to applicable laws or regulations.

<TABLE>
<S> <C> <C>
TEN COM -- as tenants in common UNIF GIFT MIN ACT = Custodian
TEN ENT -- as tenants by the entireties --------------------- ---------------------
JT TEN -- as joint tenants with right of (Cust) (Minor)
survivorship and not as tenants under Uniform Gifts to Minors
in common Act:
------------------------------------------------
(State)
UNIF TRF MIN ACT = Custodian (until age )
------------------------ -------
(Cust)
under Uniform Transfers
--------------------------------
(Minor)
to Minors Act
----------------------------------------
(State)
</TABLE>

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, hereby sell, assign and transfer unto
-----------------------

- -------------------------------------------------------------------------------

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

- --------------------------------------

- -------------------------------------------------------------------------------
(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

- -------------------------------------------------------------------------------

- -------------------------------------------------------------------------------

- ------------------------------------------------------------------------ Shares
of the common stock represented by the within Certificate, and do hereby
irrevocably constitute and appoint

- -------------------------------------------------------------------- Attorney
to transfer the said stock on the books of the within named Corporation with
full power of substitution in the premises.

Dated
-----------------------------------------

X
-----------------------------------------

X
-----------------------------------------
NOTICE: THE SIGNATURES TO THIS ASSIGNMENT
MUST CORRESPOND WITH THE NAME(S) AS
WRITTEN UPON THE FACE OF THE CERTIFICATE
IN EVERY PARTICULAR, WITHOUT ALTERATION
OR ENLARGEMENT OR ANY CHANGE WHATEVER.

Signature(s) Guaranteed

By
--------------------------------------------
THE SIGNATURE(S) MUST BE GUARANTEED BY AN
ELIGIBLE GUARANTOR INSTITUTION (BANKS,
STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS
AND CREDIT UNIONS WITH MEMBERSHIP IN AN

APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM) PURSUANT TO S.E.C. RULE 17Ad-15.

EXHIBIT 5.1

[FRESHMAN, MARANTZ, ORLANSKI, COOPER & KLEING LETTERHEAD]

May 11, 1999

Skechers U.S.A., Inc.
228 Manhattan Beach Blvd.
Manhattan Beach, California 90266

Re: Registration Statement on Form S-1
SEC File No. 333-60065

Dear Ladies and Gentlemen:

We have acted as counsel to Skechers U.S.A., Inc., a Delaware corporation (the "Company"), in connection with the preparation and filing with the Securities and Exchange Commission (the "SEC") of the Registration Statement on Form S-1, File No. 333-60065, as such may be amended from time to time, (the "Registration Statement"), of the Company, with exhibits as filed in connection therewith and the form of prospectus contained therein, for registration under the Securities Act of 1933, as amended (the "Securities Act"), of up to 12,322,250 shares of the Company's Common Stock (the "Shares"), par value $0.001 per share (the "Common Stock"), of which 8,925,000 shares of Common Stock are being offered by the Company, 1,790,000 shares of Common Stock are being offered by certain selling stockholders as described therein, and 1,607,250 shares of Common Stock are being offered by the Greenberg Family Trust to cover over-allotments, if any. The shares of Common Stock are being sold to BT Alex.Brown and Prudential Securities (the "Underwriters"), pursuant to an underwriting agreement to be entered into by and among the Company, the selling stockholders and the Underwriters (the "Underwriter Agreement").

This opinion is delivered in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the Securities Act.

For the purpose of this opinion, we have examined such matters of law and originals, or copies certified or otherwise identified to our satisfaction, of such documents, corporate records and other instruments as we have deemed necessary. In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, photostatic or conformed copies, and the authenticity of the originals of all such latter documents. We have also assumed the due execution and delivery of all documents where due execution and delivery are prerequisites to the effectiveness thereof. We have relied upon certificates of



public officials and certificates of officers of the Company for the accuracy of material, factual matters contained therein which were not independently established.

Based on the foregoing and on all other instruments, documents and matters examined for the rendering of this opinion, it is our opinion that, subject to the effectiveness of the Registration Statement with the SEC (such Registration Statement as amended and finally declared effective, and the form of Prospectus contained therein or subsequently filed pursuant to Rule 430A of Rule 424 under the Securities Act, being hereinafter referred to as the "Registration Statement" and the "Prospectus", respectively) upon the sale and issuance of the Shares in the manner referred to in the Registration Statement and in accordance with the terms of the Underwriting Agreement, and upon payment therefor, the Shares will be legally issued, fully paid and non-assessable shares of the

Common Stock of the Company.

We express no opinion as to the applicability or effect of any laws, orders or judgements or any state or jurisdiction other than the federal securities laws and the substantive laws of the State of Delaware. Further, our opinion is based solely upon existing laws, rules and regulations, and we undertake no obligation to advise you of any changes that may be brought to our attention after the date hereof.

We consent to the use of our name under the captioned "Legal Matters" in the Prospectus, constituting part of the Registration Statement, and to the filing of this opinion as an exhibit to the Registration Statement.

By giving you this opinion and consent, we do not admit that we are experts with respect to any part of the Registration Statement or Prospectus within the meaning of the term "expert" as used in Section 11 of the Securities Act, or the rules and regulations promulgated thereunder by the SEC, nor do we admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act.

Very truly yours,

/s/ FRESHMAN, MARANTZ, ORLANSKI
COOPER & KLEIN

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FRESHMAN, MARNATZ, ORLANSKI
COOPER & KLEIN

EXHIBIT 10.1

# SKECHERS U.S.A., INC.

# AMENDED AND RESTATED
# 1998 STOCK OPTION, DEFERRED STOCK
# AND
# RESTRICTED STOCK PLAN

SECTION 1. GENERAL PURPOSE OF PLAN; DEFINITIONS.

(a) This plan is intended to implement and govern the 1998 Stock Option, Deferred Stock and Restricted Stock Plan (the "Plan") of Skechers U.S.A., Inc., a California corporation (the "Company"). The Plan was adopted by the Board of Directors as of January 15, 1998, subject to the approval of the Company's shareholders. The purpose of the Plan is to enable the Company and its Subsidiaries to obtain and retain competent personnel who will contribute to the Company's success by their ability, ingenuity and industry, and to provide incentives to such personnel and members that are linked directly to increases in shareholder value, and will therefore, inure to the benefit of all shareholders of the Company.

(b) For purposes of the Plan, the following terms shall be defined as set forth below:

(1) "Administrator " means the Board, or if the Board does not administer the Plan, the Committee in accordance with Section 2.

(2) "Award" means any award of Deferred Stock, Restricted Stock, or Stock Option.

(3) "Board" means the Board of Directors of the Company.

(4) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

(5) "Committee" means the Compensation Committee of the Board, or any other Committee the Board may subsequently appoint to administer the Plan. If at any time the Board shall administer the Plan, then the functions of the Board specified in the Plan shall be exercised by the Committee.

(6) "Company" means Skechers U.S.A., Inc., a corporation organized under the laws of the State of California (or any successor corporation).



(7) "Covered Security" means any security listed under Subsection (b) of Section 18 of the Securities Act of 1933, as amended, or defined as such pursuant to the Rules and Regulations of the SEC.

(8) "Deferred Stock" means an award made pursuant to Section 7 below of the right to receive Stock at the end of a specified deferral period.

(9) "Disability" means permanent and total disability as determined under the Company's disability program or policy.

(10) "Effective Date" shall mean the date provided pursuant to Section 18.

(11) "Eligible Employee" means an employee, officer, director, consultant or advisor of the Company, any Subsidiary or Parent Corporation eligible to participate in the Plan pursuant to Section 4;

(12) "Exchange Act" means the Securities Exchange Act of 1934, as

amended.

(13) "Fair Market Value" means, as of any given date, with respect to any Awards granted hereunder, at the discretion of the Administrator and subject to such limitations as the Administrator may impose, (A) the closing sale price of the Stock on such date as reported in the Western Edition of the Wall Street Journal Composite Tape, or (B) the average of the closing price of the Stock on each day on which the Stock was traded over a period of up to twenty trading days immediately prior to such date, or (C) if the Stock is not publicly traded, the fair market value of the Stock as otherwise determined by the Administrator in the good faith exercise of its discretion.

(14) "Incentive Stock Option" means any Stock Option intended to be designated as an "Incentive Stock Option" within the meaning of Section 422 of the Code.

(15) "Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option, including any Stock Option that provides (as of the time such option is granted) that it will not be treated as an Incentive Stock Option.

(16) "Parent Corporation" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

(17) "Participant" means any Eligible Employee selected by the Administrator pursuant to the Administrator's authority in Section 2 below, to receive grants of Stock Options or Awards or any combination of the foregoing.



(18) "Restricted Period" means the period set by the Administrator as it pertains to Deferred Stock or Restricted Stock Awards pursuant to Section 7.

(19) "Restricted Stock" means an award of shares of Stock granted pursuant to Section 7 subject to restrictions that will lapse with the passage of time or upon the attainment of performance objectives.

(20) "Stock" means the Common Stock, no par value per share, of the Company.

(21) "SEC" means the Securities and Exchange Commission.

(22) "Stock Option" means an option to purchase shares of Stock granted pursuant to Section 5.

(23) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations (other than the last corporation) in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

SECTION 2. ADMINISTRATION.

(a) The Plan shall be administered by the Board or by a Committee appointed by the Board, which shall serve at the pleasure of the Board; provided, however, that if the Committee does not consist solely of "Non-Employee Directors," as defined in Rule 16b-3 as promulgated by the SEC under the Exchange Act, as such Rule may be amended from time to time, or any successor definition adopted by the Commission, then the Plan shall be administered, and each grant shall be approved, by the Board.

(b) The Administrator shall have the power and authority to grant to

Eligible Employees, pursuant to the terms of the Plan: (A) Stock Options, (B) Deferred Stock, (C) Restricted Stock, or (D) any combination of the foregoing.

In particular, the Administrator shall have the authority;

(1) to select those employees of the Company or any Subsidiary or Parent Corporation who are Eligible Employees;

(2) to determine whether and to what extent Stock Options, Deferred Stock, Restricted Stock or a combination of the foregoing, are to be granted to Eligible Employees of the Company or any Subsidiary hereunder;

(3) to determine the number of shares of Stock to be covered by each such Award;



(4) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any such Award including, but not limited to, (x) the restricted period applicable to Deferred Stock or Restricted Stock Awards, (y) the date or dates on which restrictions applicable to such Deferred Stock or Restricted Stock shall lapse during such period, and (z) when and in what increments shares covered by Stock Options may be purchased; and

(5) to determine the terms and conditions, not inconsistent with the terms of the Plan, which shall govern all written instruments evidencing the Stock Options, Deferred Stock, Restricted Stock or any combination of the foregoing.

(c) The Administrator shall have the authority, in its discretion, to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable; to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreements relating thereto); and to otherwise supervise the administration of the Plan.

(d) All decisions made by the Administrator pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company, any Subsidiaries, Parent Corporation and the Participants.

SECTION 3. STOCK SUBJECT TO PLAN.

(a) The total number of shares of Stock reserved and available for issuance under the Plan shall be three hundred seventy-five (375) shares. Such shares shall consist of authorized but unissued shares. Except in the event that the Stock is a Covered Security, at no time shall the total number of shares issuable upon exercise of all outstanding options and the total number of shares provided for under any stock bonus plan of the issuer exceed the applicable percentage as calculated in accordance with the conditions and exclusions of Section 260.140.45 of the California Corporate Securities Rules, or any successor thereto, based on the shares of the issuer which are outstanding at the time the calculation is made.

(b) To the extent that (i) a Stock Option expires or is otherwise terminated without being exercised or (ii) any shares of Stock subject to any Deferred Stock or Restricted Stock Award granted hereunder are forfeited, such shares shall again be available for issuance in connection with future Awards under the Plan. If any shares of Stock have been pledged as collateral for indebtedness incurred by a Participant in connection with the exercise of a Stock Option and such shares are returned to the Company in satisfaction of such indebtedness, such shares shall again be available for issuance in connection with future Awards under the Plan.

(c) In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, or other change in corporate structure affecting the Stock, a substitution or adjustment may be made in (i) the aggregate number of shares reserved for issuance under the Plan, and (ii) the kind, number and option price of shares subject to outstanding Stock Options granted under the Plan as may be determined by the Administrator, in its sole discretion. Such other substitutions or



adjustments shall be made as may be determined by the Administrator, in its sole discretion; provided, however, that with respect to Incentive Stock Options, such adjustment shall be made in accordance with Section 424 of the Code.

SECTION 4. ELIGIBILITY.

Officers and other key employees, directors and consultants and advisors of the Company, any Subsidiary or Parent Corporation who are responsible for or contribute to the management, growth and/or profitability of the business of the Company, shall be eligible to be granted Non-Qualified Stock Options and Deferred Stock or Restricted Stock Awards hereunder. Officers and other key employees of the Company, any Subsidiary or Parent Corporation shall also be eligible to be granted Incentive Stock Options hereunder. The Participants under the Plan shall be selected from time to time by the Administrator, in its sole discretion, from among the Eligible Employees recommended by the senior management of the Company, and the Administrator shall determine, in its sole discretion, the number of shares covered by each Award.

SECTION 5. STOCK OPTIONS FOR ELIGIBLE EMPLOYEES.

(a) Stock Options may be granted to Eligible Employees alone or in addition to other Awards granted under the Plan. Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve, and the provisions of Stock Option awards need not be the same with respect to each optionee. Recipients of Stock Options shall enter into a stock option agreement with the Company, in such form as the Administrator shall determine, which agreement shall set forth, among other things, the exercise price, the term, and provisions regarding exercisability of the option granted thereunder.

The Stock Options granted under the Plan to Eligible Employees may be of two types: (x) Incentive Stock Options and (y) Non-Qualified Stock Options.

(b) The Administrator shall have the authority under this Section 5 to grant any optionee Incentive Stock Options, Non-Qualified Stock Options, or both types of options; provided, however, that Incentive Stock Options may not be granted to any individual who is not an employee of the Company, its Subsidiaries or Parent Corporation. To the extent that any Stock Option does not qualify as an Incentive Stock Option, it shall constitute a separate Non-Qualified Stock Option. More than one option may be granted to the same optionee and be outstanding concurrently hereunder.

(c) Stock Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable:

(i) Option Price. The option price per share of Stock purchasable under an Incentive Stock Option shall be determined by the Administrator in its sole discretion at the time of grant but



shall be not less than 100% of the Fair Market Value of the Stock on such date, and shall not, in any event, be less than the par value of the Stock. The option price per share of Stock purchasable under a Non-Qualified Stock Option may not be less than 85% of such Fair Market Value. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the

Company or any Parent Corporation or Subsidiary and an Incentive Stock Option is granted to such employee, the option price of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no less than 110% of the Fair Market Value of the Stock on the date such Incentive Stock Option is granted.

(ii) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date such Stock Option is granted; provided, however, that if an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Parent Corporation or Subsidiary and an Incentive Stock Option is granted to such employee, the term of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no more than five years from the date of grant.

(iii) Exercisability. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator at or after grant; provided, however, that, except as provided herein or unless otherwise determined by the Administrator at or after grant, Stock Options shall be exercisable one year following the date of grant of the option, but in no case, less than six (6) months following the date of the grant of the option. To the extent not exercised, installments shall accumulate and be exercisable in whole or in part at any time after becoming exercisable but not later than the date the Stock Option expires. The Administrator may provide, in its discretion, that any Stock Option shall be exercisable only in installments, and the Administrator may waive such installment exercise provisions at any time in whole or in part based on such factors as the Administrator may determine in its sole discretion.

(iv) Method of Exercise. Subject to Section 5(c) above, Stock Options may be exercised in whole or in part at any time during the option period, by giving written notice of exercise to the Company specifying the number of shares to be purchased, accompanied by payment in full of the purchase price in cash or its equivalent, as determined by the Administrator. As determined by the Administrator, in its sole discretion, payment in whole or in part may also be made (A) in the form of unrestricted Stock (if held for at least six months) already owned by the optionee (based on the Fair Market Value of the Stock on the date the option is exercised), (B) by cancellation of any indebtedness owed by the Company to the optionee, (C) by a full recourse promissory note executed by the optionee, (D) in the event that a registration statement on Form S-8 has been filed with the SEC registering the Stock underlying the options, by arrangement with a broker which is acceptable to the Administrator where payment of the option price is made pursuant to an irrevocable direction to the broker to deliver all or part of the proceeds from the sale of the shares underlying the option to the Company, or (E) by any combination of the foregoing; provided, however, that in the case of an Incentive Stock Option, the right to make payment in the form of already owned shares may be authorized only at the time of grant. Any



payment in the form of Stock already owned by the optionee may be effected by use of an attestation form approved by the Administrator. An optionee shall generally have the rights to dividends and other rights of a shareholder with respect to shares subject to the option only after the optionee has given written notice of exercise, has paid in full for such shares, and, if requested, has given the representation described in paragraph (a) of Section 11.

(d) The Administrator may require the voluntary surrender of all or a portion of any Stock Option granted under the Plan as a condition precedent to a grant of a new Stock Option. Subject to the provisions of the Plan, such new Stock Option shall be exercisable at the price, during such period and on such other terms and conditions as are specified by the Administrator at the time the new Stock Option is granted; provided, however, that should the Administrator so require, the number of shares subject to such new Stock Option shall not be greater than the number of shares subject to the surrendered Stock Option. Upon their surrender, the Stock Options shall be canceled and the shares previously subject to such canceled Stock Options shall again be available for grants of Stock Options and other Awards hereunder.

(e) Loans. The Company may make loans available to Stock Option holders in connection with the exercise of outstanding options granted under the Plan, as the Administrator, in its discretion, may determine. Such loans shall (i) be evidenced by full recourse promissory notes entered into by the Stock Option holders in favor of the Company, (ii) be subject to the terms and conditions set forth in this Section 5(e) and such other terms and conditions, not inconsistent with the Plan, as the Administrator shall determine, (iii) bear interest, if any, at such rate as the Administrator shall determine and (iv) be subject to Board approval. In no event may the principal amount of any such loan exceed the sum of (x) the exercise price less the par value of the shares of Stock covered by the option, or portion thereof, exercised by the holder and (y) any Federal, state, and local income tax attributable to such exercise. The initial term of the loan, the schedule of payments of principal and interest under the loan and the conditions upon which the loan will become payable in the event of the holder's termination of employment shall be determined by the Administrator; provided, however, that the term of the loan, including extensions, shall not exceed seven years. Unless the Administrator determines otherwise, when a loan is made, shares of Common Stock having a Fair Market Value at least equal to the principal amount of the loan shall be pledged by the holder to the Company as security for payment of the unpaid balance of the loan, and such pledge shall be evidenced by a pledge agreement, the terms of which shall be determined by the Administrator, in its discretion; provided, however, that each loan shall comply with all applicable laws, regulations and rules of the Board of Governors of the Federal Reserve System and any other governmental agency having jurisdiction, and provided further that in the case of a loan to an Eligible Employee who is not an officer, director or employee of the Company, the loan shall be secured by adequate collateral other than the shares of Stock acquired.

(f) Limits on Transferability of Options. No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee.



(g) Termination by Death. If an optionee's employment with the Company, any Subsidiary or Parent Corporation terminates by reason of death, the Stock Option may thereafter be immediately exercised, to the extent then exercisable (or on such accelerated basis as the Administrator shall determine at or after grant), by the legal representative of the estate or by the legatee of the optionee under the will of the optionee, for a period of twelve months (or such shorter period as the Administrator shall specify at grant, but in no event less than six months) from the date of such death.

(h) Termination by Reason of Disability. If an optionee's employment with the Company, any Subsidiary or Parent Corporation terminates by reason of Disability, any Stock Option held by such optionee may thereafter be exercised, to the extent it was exercisable at the time of such termination (or on such accelerated basis as the Administrator shall determine at the time of grant), for a period of twelve months (or such shorter period as the Administrator shall specify at grant, but in no event less than six months) from the date of such termination of employment. In the event of a termination of employment by reason of Disability, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option shall thereafter be treated as a Non-Qualified Stock Option.

(i) Other Termination. Except as otherwise provided in this paragraph or otherwise determined by the Administrator, if an optionee's employment with the Company, any Subsidiary or Parent Corporation terminates for any reason other than death or Disability, any accrued Stock Option may be exercised until the earlier to occur of (i) three months from the date of such termination or (ii) the expiration of the stated term of such Stock Option; provided, however, that if the expiration of the stated term of such Stock Option is less than 30 days from the date of termination, then such Stock Option shall expire 30 days from the date of termination.

(j) Annual Limit on Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of the shares of Stock with respect to which Incentive Stock Options granted to an optionee under this Plan and all other option plans of the Company, its Parent Corporation and any Subsidiary become exercisable for the first time by the optionee during any calendar year exceeds $100,000, such Stock Options shall be treated as Non-Qualified Stock Options.

SECTION 6. Intentionally omitted.



SECTION 7. DEFERRED STOCK AND RESTRICTED STOCK.

(a) General. Deferred Stock and Restricted Stock awards may be issued to Eligible Employees either alone or in addition to other Awards granted under the Plan. The Administrator shall determine the Eligible Employees, and the time or times at which, grants of Deferred Stock or Restricted Stock awards shall be made; the number of shares to be awarded; the price, if any, to be paid by the recipient of Deferred Stock or Restricted Stock awards; the Restricted Period (as defined in paragraph 7(c) hereof) applicable to Deferred Stock or Restricted Stock awards; the performance objectives applicable to Deferred Stock or Restricted Stock awards; the date or dates on which restrictions applicable to such Deferred Stock or Restricted Stock awards shall lapse during such Restricted Period; and all other conditions of the Deferred Stock or Restricted Stock awards. The Administrator may also condition the grant of Deferred Stock or Restricted Stock awards upon the exercise of Stock Options, or upon such other criteria as the Administrator may determine, in its sole discretion. The provisions of Deferred Stock or Restricted Stock awards need not be the same with respect to each recipient.

(b) Awards and Certificates. The prospective recipient of a Deferred Stock or Restricted Stock award shall not have any rights with respect to such Award, unless and until such recipient has executed an agreement evidencing the Award (a "Deferred Stock Award Agreement" or Restricted Stock Award Agreement" as appropriate) and has delivered a fully executed copy thereof to the Company, within a period of sixty days (or such other period as the Administrator may specify) after the Award date.

Except as provided below in this Section 7(b), (i) each Participant who is awarded Restricted Stock shall be issued a stock certificate in respect of such shares of Restricted Stock; and (ii) such certificate shall be registered in the name of the Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form:

> "The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Skechers U.S.A., Inc., 1998 Stock Option, Deferred Stock and Restricted Stock Plan and a Restricted Stock Award Agreement entered into between the registered owner and Skechers U.S.A., Inc. Copies of such Plan and Agreement are on file in the offices of Skechers U.S.A., Inc."

The Company shall require that the stock certificates evidencing such shares be held in the custody of the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Restricted Stock award, the Participant shall have delivered a stock power, endorsed in blank, relating to the Stock covered by such Award.

With respect to Deferred Stock awards, at the expiration of the Restricted Period, stock certificates in respect of such shares of Deferred Stock shall be delivered to the Participant, or his legal representative, in a number equal to the shares of Stock covered by the Deferred Stock award.

(c) Restriction and Conditions. The Deferred Stock or Restricted Stock awards granted pursuant to this Section 7 shall be subject to the following restrictions and conditions:

(i) Subject to the provisions of the Plan and the Deferred Stock or Restricted Stock Award Agreements, during such period as may be set by the Administrator commencing on the grant date (the "Restricted Period"), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Deferred Stock or Restricted Stock awarded under the Plan. Within these limits, the Administrator may, in its sole discretion, provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part based on such factors and such circumstances as the Administrator may determine, in its sole discretion, including, but not limited to, the attainment of certain performance related goals, the Participant's termination, death or Disability or the occurrence of a "Change of Control" as defined in Section 10 below.

(ii) Except as provided in paragraph (c)(i) of this Section 7, the Participant shall have, with respect to the shares of Restricted Stock, all of the rights of a shareholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon during the Restricted Period. With respect to Deferred Stock awards, the Participant shall generally not have the rights of a shareholder of the Company, including the right to vote the shares during the Restricted Period; provided, however, that dividends declared during the Restricted Period with respect to the number of shares covered by a Deferred Stock award shall be paid to the Participant. Certificates for shares of unrestricted Stock shall be delivered to the Participant promptly after, and only after, the Restricted Period shall expire without forfeiture in respect of such shares of Deferred Stock or Restricted Stock, except as the Administrator, in its sole discretion, shall otherwise determine.

(iii) Subject to the provisions of the Deferred Stock or Restricted Stock Award Agreement and this Section 7, upon termination of employment for any reason during the Restricted Period, all shares subject to any restriction as of the date of such termination shall be forfeited by the Participant, and the Participant shall only receive the amount, if any, paid by the Participant for such Deferred Stock or Restricted Stock, plus simple interest on such amount at the rate of 8% per year.

SECTION 8. AMENDMENT AND TERMINATION.

(a) The Board may amend, alter or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made that would impair the rights of the Participant under any Award theretofore granted without such Participant's consent, or that without the approval of the shareholders (as described below) would:



(i) except as provided in Section 3, increase the total number of shares of Stock reserved for the purpose of the Plan;

(ii) change the employees or class of employees eligible to participate in the Plan;

(iii) extend the maximum option period under Section 5 of the Plan.

(b) Notwithstanding the foregoing, shareholder approval under this Section 8 shall only be required at such time and under such circumstances as shareholder approval would be required under applicable laws, regulations and exchange requirements.

(c) The Administrator may amend the terms of any Award theretofore granted, prospectively or retroactively, but, subject to Section 3, no such amendment shall impair the rights of any holder without his or her consent.

SECTION 9. UNFUNDED STATUS OF PLAN.

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant or optionee by the Company, nothing contained herein shall give any such Participant or optionee any rights that are greater than those of a general creditor of the Company.

SECTION 10. CHANGE OF CONTROL.

The following acceleration and valuation provisions shall apply in the event of a "Change of Control", as defined in paragraph (b) of this Section 10:

(a) In the event of a "Change of Control," unless otherwise determined by the Administrator or the Board in writing at or after grant (including under any individual agreement), but prior to the occurrence of such Change of Control;

(i) any Stock Options awarded under the Plan not previously exercisable and vested shall become fully exercisable and vested;

(ii) the restrictions applicable to any Restricted Stock or Deferred Stock awards under the Plan shall lapse, and such shares and Awards shall be deemed fully vested;

(iii) any indebtedness incurred pursuant to Section 5(e) above shall be forgiven and the collateral pledged in connection with any such loan shall be released; and

(iv) the value of all outstanding Stock Options, Restricted Stock and Deferred Stock awards shall, to the extent determined by the Administrator at or after grant, be cashed out by



a payment of cash or other property, as the Administrator may determine, on the basis of the "Change of Control Price" (as defined in paragraph (c) of this Section 10) as of the date the Change of Control occurs or such other date as the Administrator may determine prior to the Change of Control.

(b) For purposes of paragraph (a) of this Section 10, a "Change of Control" shall be deemed to have occurred if:

(i) any "person," as such term is used in Sections 13(d) and 14(d) of the Exchange Act(other than the Company; any trustee or other fiduciary holding securities under an employee benefit plan of the Company; or any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of the Stock of the Company) is or becomes after the Effective Date the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person or any securities acquired directly from the Company or its affiliates) representing 50% or more of the combined voting power of the Company's then outstanding securities; or

(ii) during any period of two consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (iii) or (iv) of this Section 10(b)) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then 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 thereof; or

(iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least 75% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

(iv) the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.



(c) For purposes of this Section 10, "Change of Control Price" means the higher of (i) the highest price per share paid or offered in any transaction related to a Change of Control of the Company or (ii) the highest price per share paid in any transaction reported on the exchange or national market system on which the Stock is listed, at any time during the preceding sixty day period as determined by the Administrator, except that, in the case of Incentive Stock Options, such price shall be based only on transactions reported for the date on which the Administrator decides to cash out such options.

SECTION 11. GENERAL PROVISIONS.

(a) The Administrator may require each person purchasing shares pursuant to a Stock Option to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof. The certificates for such shares may include any legend which the Administrator deems appropriate to reflect any restrictions on transfer.

All certificates for shares of Stock delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Administrator may deem advisable under the rules, regulations, and other requirements of the Commission, any stock exchange upon which the Stock is then listed, and any applicable Federal or state securities law, and the Administrator may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions.

(b) Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(c) Each Participant shall, no later than the date as of which the value of an Award first becomes includable in the gross income of the Participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld with respect to the Award. The obligations of the Company under the Plan shall be conditional on the making of such payments or arrangements, and the Company (and, where applicable, its Subsidiaries) shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant.

(d) No member of the Board or the Administrator, nor any officer or employee of the Company acting on behalf of the Board or the Administrator, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Administrator and each and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.



(e) This Plan is purely voluntary on the part of the Company, and while the Company hopes to continue it indefinitely, the continuance of the Plan shall not be deemed to constitute a contract between the Company and any employee, or to be consideration for or a condition of the employment of any employee. Nothing contained in the Plan shall be deemed to give any employee the right to be retained in the employ of the Company, its Subsidiaries, or its Parent Corporation to interfere with the right of the Company, or its Subsidiaries to discharge or retire any employee thereof at any time. No employee shall have any right to, or interest in, Stock Options, Restricted Stock, or Deferred Stock, authorized hereunder prior to the grant of such a Stock Option or other award described herein to such employee, and upon such grant he or she shall have only such rights and interests as are expressly provided herein, subject, however, to all applicable provisions of the Company's Articles of Incorporation, as the same may be amended from time to time.

SECTION 12. SPECIFIC PERFORMANCE.

The Stock Options granted under this Plan and the Shares issued pursuant to the exercise of such Stock Options cannot be readily purchased or sold in the open market, and, for that reason among others, the Company and its shareholders will be irreparably damaged in the event that this Plan is not specifically enforced. In the event of any controversy concerning the right or obligation to purchase or sell any such Option or Optioned Stock, such right or obligation shall be enforceable in a court of equity by a decree of a specific performance. Such remedy shall, however, be cumulative and not exclusive, and shall be in addition to any other remedy which the parties may have.

SECTION 13. INVALID PROVISION.

In the event that any provision of this Plan is found to be invalid or otherwise unenforceable under any applicable law, such invalidity or unenforceability shall not be construed as rendering any other provisions contained herein invalid or unenforceable, and all such other provisions shall be given full force and effect to the same extent as though the invalid unenforceable provision was not contained herein.

SECTION 14. APPLICABLE LAW.

This Plan shall be governed by and construed in accordance with the laws of the State of California.

SECTION 15. SUCCESSORS AND ASSIGNS.

This Plan shall be binding on and inure to the benefit of the Company and the employees to whom an Option is granted hereunder, and such employees' heirs, executors, administrators, legatees, personal representatives, assignees and transferees.

SECTION 16. AUTHORIZATION TO ISSUE OPTIONS AND SHAREHOLDER APPROVAL.



Unless in the judgment of counsel to the Company such permit is not necessary with respect to particular grants, Stock Options granted under the Plan shall be conditioned upon the Company obtaining any required permit from the California Department of Corporations and/or other appropriate governmental agencies, free of any conditions not acceptable to the Board, authorizing the Company to grant such Stock Options, provided, however, such condition shall lapse as of the effective date of issuance of such permit(s) in a form to which the Company does not object within sixty (60) days. The grant of Stock Options under the Plan also is conditioned on approval of the Plan by the vote or consent of the holders of a majority of the outstanding shares of the Company's Common Stock and no Stock Option granted hereunder shall be effective or exercisable unless and until the Plan has been so approved within 12 months of the adoption of the Plan.

SECTION 17. ANNUAL REPORT.

Except at such time as the Stock becomes a Covered Security, if any consultants or directors are issued Stock Options under this Plan, the Company shall furnish such consultants or directors with financial statements at least annually.

SECTION 18. EFFECTIVE DATE OF PLAN.

The Plan became effective (the "Effective Date") on January 15, 1998.

SECTION 19. TERM OF PLAN.

No Stock Option, Deferred Stock or Restricted Stock award shall be granted pursuant to the Plan on or after the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date.



IN WITNESS WHEREOF, pursuant to the due authorization and adoption of this Plan by the Board on the day and year first above written, the Company has caused this Plan to be duly executed by its duly authorized officers.

SKECHERS U.S.A., INC.

By: /s/ David Weinberg
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Name: David Weinberg
Title: Chief Financial Officer

EXHIBIT 10.2

SKECHERS U.S.A., INC.

AMENDED AND RESTATED

1998 EMPLOYEE STOCK PURCHASE PLAN

The following constitute the provisions of the 1998 Employee Stock Purchase Plan of Skechers U.S.A., Inc.

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the Common Stock of the Company.

(d) "Company" shall mean Skechers U.S.A., Inc. and any Designated Subsidiary of the Company.

(e) "Compensation" shall mean all base straight time gross earnings including commissions, payments for overtime, incentive payments and performance bonuses.

(f) "Designated Subsidiary" shall mean any Subsidiary which has been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(g) "Employee" shall mean any individual who is an Employee of the Company for tax purposes whose customary employment with the Company is at least twenty (20) hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

(h) "Enrollment Date" shall mean the first Trading Day of each Offering Period.



(i) "Exercise Date" shall mean the last Trading Day of each Purchase Period.

(j) "Fair Market Value" shall mean, as of any date, the value of Common Stock determined as follows:

(1) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day on the date of such determination, as reported in The Wall Street Journal or such other source as the

Board deems reliable, or;

(2) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock on the date of such determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;

(3) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(4) For purposes of the Enrollment Date of the first Offering Period under the Plan, the Fair Market Value shall be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company's Common Stock (the "Registration Statement").

(k) "Offering Periods" shall mean the periods of approximately twelve (12) months during which an option granted pursuant to the Plan may be exercised, commencing on the first Trading Day on or after January 1 and July 1 of each year and terminating on the last Trading Day in the periods ending twelve months later; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the last Trading Day on or before December 31, 1999. The duration and timing of Offering Periods may be changed pursuant to Section 4 of this Plan.

(l) "Plan" shall mean this Employee Stock Purchase Plan.

(m) "Purchase Period" shall mean the approximately six month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period shall commence on the Enrollment Date and end with the next Exercise Date; provided, however, that the first Purchase Period under the Plan shall commence with the first Trading Day on or after the date on which the



Securities and Exchange Commission declares the Company's Registration Statement effective and shall end on the last Trading Day on or before December 31, 1999.

(n) "Purchase Price" shall mean an amount equal to 85% of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower; provided, however, that the Purchase Price may be adjusted by the Board pursuant to Section 20.

(o) "Reserves" shall mean the number of shares of Common Stock covered by each option under the Plan which have not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but not yet placed under option.

(p) "Subsidiary" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

(q) "Trading Day" shall mean a day on which national stock exchanges and the Nasdaq System are open for trading.

3. Eligibility.

(a) Any Employee who shall be employed by the Company on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) to the extent that, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Subsidiary, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries accrues at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) worth of stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by consecutive, overlapping Offering Periods with a new Offering Period commencing on the first Trading Day on or after January 1 and July 1 of each year, or on such other date as the Board shall determine, and continuing thereafter until terminated in accordance with Section 20 hereof; provided, however, that the first Offering Period under the Plan shall commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and ending on the last Trading



Day on or before December 31, 1999. The Board shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without shareholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in the form of Exhibit A to this Plan and filing it with the Company's payroll office not later than two (2) weeks prior to the applicable Enrollment Date. Eligible employees who begin employment with the Company within two weeks of an Enrollment Date may file a subscription agreement with the Company's payroll office up to one day prior to the applicable Enrollment Date. With respect to the first Enrollment Date, eligible Employees may file a subscription agreement up to one day prior to the Enrollment Date. An eligible Employee may participate in only one Offering Period at a time.

(b) Payroll deductions for a participant shall commence on the first payroll following the Enrollment Date and shall end on the last payroll in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each pay day during the Offering Period in an amount not exceeding 15% of the Compensation which he or she receives on each pay day during the Offering Period.

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and shall be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 10 hereof, or may increase or decrease the rate of his or her payroll deductions during the Offering Period by completing or filing with the Company a new subscription agreement authorizing a change in payroll deduction rate. The Board may, in its discretion, limit the number of participation rate changes during any Offering Period. The change in rate shall be effective with the first full payroll period following five (5) business days after the Company's receipt of the new subscription agreement unless the Company elects to process a given change in participation more quickly. A participant's subscription agreement shall remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.



(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a participant's payroll deductions may be decreased to zero percent (0%) at any time during a Purchase Period. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10 hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Employee.

7. Grant of Option. On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Participant's account as of the Exercise Date by the applicable Purchase Price; provided that in no event shall an Employee be permitted to purchase during each Offering Period more than a number of Shares determined by dividing $25,000 by the Fair Market Value of a share of the Company's Common Stock (subject to any adjustment pursuant to Section 19) on the Enrollment Date, and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12 hereof. The Board may, for future Offering Periods and in its absolute discretion, set a maximum number of shares of the Company's Common Stock an Employee may purchase during each Purchase Period of such Offering Period and increase or decrease such maximum. Exercise of the option shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof. The option shall expire on the last day of the Offering Period.

8. Exercise of Option.

(a) Unless a participant withdraws from the Plan as provided in Section 10 hereof, his or her option for the purchase of shares shall be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares shall be purchased; any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other monies left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Board determines that, on a given Exercise Date, the number of shares with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Enrollment Date of the applicable Offering Period, or (ii) the number of shares available for sale under the Plan on such Exercise Date, the Board may in its sole discretion (x) provide that the Company shall make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect, or (y) provide that the Company shall make a pro rata allocation of the shares available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 20 hereof. The Company may make pro rata allocation of the shares available on the Enrollment Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's stockholders subsequent to such Enrollment Date.

9. Delivery. As promptly as practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange the delivery, either electronically or manually, to each participant, as appropriate, or to a designated broker as chosen by the Company in its discretion, of a certificate representing the shares purchased upon exercise of his or her option.

10. Withdrawal.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by giving written notice to the Company in the form of Exhibit B to this Plan. All of the participant's payroll deductions credited to his or her account shall be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period shall be automatically terminated, and no further payroll deductions for the purchase of shares shall be made for such Offering Period. If a participant withdraws from an Offering Period, payroll deductions shall not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement.



(b) A participant's withdrawal from an Offering Period shall not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.

11. Termination of Employment.

Upon a participant's ceasing to be an Employee, for any reason, he or she shall be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the Offering Period, but not yet used to exercise the option, shall be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15 hereof, and such participant's option shall be automatically terminated. The preceding sentence notwithstanding, a participant who receives payment in lieu of notice of termination of employment shall be treated as continuing to be an Employee for the participant's customary number of hours per week of employment during the period in which the participant is subject to such payment in lieu of notice.

12. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 200 shares, plus an annual increase to be added on the first day of the Company's fiscal year beginning in 1999 equal to the lesser of (i) 200 shares, (ii) one percent (1%) of the outstanding shares on such date, or (iii) a lesser amount as determined by the Board.

(b) The participant shall have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan shall be registered in the name of the participant or in the name of the participant and his or her spouse.

14. Administration. The Plan shall be administered by the Board or a committee of members of the Board appointed by the Board. The Board or its committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Board or its committee shall, to the full extent permitted by law, be final and binding upon all parties.



15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Reports. Individual accounts shall be maintained for each participant in the Plan. Statements of account shall be given to participating Employees at least annually, which statements shall set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization, Dissolution, Liquidation, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the Reserves, the maximum number of shares each participant may purchase each Purchase Period (pursuant to Section 7), as well as the price per share and the number of shares of Common Stock covered by each option under the Plan which has



not yet been exercised shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Period then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date"), and shall terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Board. The New Exercise Date shall be before the date of the Company's proposed dissolution or liquidation. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each outstanding option shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, any Purchase Periods then in progress shall be shortened by setting a new Exercise Date (the "New Exercise Date") and any Offering Periods then in progress shall end on the New Exercise Date. The New Exercise Date shall be before the date of the Company's proposed sale or merger. The Board shall notify each participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the participant's option has been changed to the New Exercise Date and that the participant's option shall be exercised automatically on the New Exercise Date, unless prior to such date the participant has withdrawn from the Offering Period as provided in Section 10 hereof.



20. Amendment or Termination.

(a) The Board of Directors of the Company may at any time and for any reason terminate or amend the Plan. Except as provided in Section 19 hereof, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Board of Directors on any Exercise Date if the Board determines that the termination of the Offering Period or the Plan is in the best interests of the Company and its shareholders. Except as provided in Section 19 and this Section 20 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain shareholder approval in such a manner and to such a degree as required.

(b) Without shareholder consent and without regard to whether any participant rights may be considered to have been "adversely affected," the Board (or its committee) shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or its committee) determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(1) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

(2) shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Board action; and

(3) allocating shares.

Such modifications or amendments shall not require stockholder approval or the consent of any Plan participants.

21. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company. It shall continue in effect until June 30, 2008, unless sooner terminated under Section 20 hereof.

24. Automatic Transfer to Low Price Offering Period. To the extent permitted by any applicable laws, regulations, or stock exchange rules, if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.



EXHIBIT A

SKECHERS U.S.A., INC.

1998 EMPLOYEE STOCK PURCHASE PLAN
SUBSCRIPTION AGREEMENT

[ ] Original Application Enrollment Date:____________

[ ] Change in Payroll Deduction Rate
[ ] Change of Beneficiary(ies)

1. _________________________hereby elects to participate in the Skechers U.S.A., Inc. 1998 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Employee Stock Purchase Plan.

2. I hereby authorize payroll deductions from each paycheck in the amount of __% of my Compensation on each payday (from 1 to 15%) during the Offering Period in accordance with the Employee Stock Purchase Plan. (Please note that no fractional percentages are permitted.)

3. I understand that said payroll deductions shall be accumulated for

the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Employee Stock Purchase Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option.

4. I have received a copy of the complete Employee Stock Purchase Plan. I understand that my participation in the Employee Stock Purchase Plan is in all respects subject to the terms of the Plan. I understand that my ability to exercise the option under this Subscription Agreement is subject to shareholder approval of the Employee Stock Purchase Plan.

5. Shares purchased for me under the Employee Stock Purchase Plan should be issued in the name(s) of (Employee or Employee and Spouse only):_____
_________________________________.

6. I understand that if I dispose of any shares received by me pursuant to the Plan within 2 years after the Enrollment Date (the first day of the Offering Period during which I purchased such shares) or 1 year after the Exercise Date, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased by me over the price which I paid for the shares. I hereby agree to notify the Company in writing within 30 days after the date of any disposition of my shares and I will make adequate provision for Federal, state or other tax withholding obligations, if any, which arise upon the disposition of the Common Stock. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares, or (2) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

7. I hereby agree to be bound by the terms of the Employee Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Employee Stock Purchase Plan.

8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Employee Stock Purchase Plan:

NAME (Please print):

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(First) (Middle) (Last)

Relationship:

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Employee's Social
Security Number:

Employee's Address:

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated:
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Signature of Employee

----------------------------------------------
Spouse's Signature (If beneficiary other than spouse)

EXHIBIT B

SKECHERS U.S.A., INC.

1998 EMPLOYEE STOCK PURCHASE PLAN
NOTICE OF WITHDRAWAL

The undersigned participant in the Offering Period of the Skechers U.S.A., Inc. 1998 Employee Stock Purchase Plan which began on ________________,____ (the "Enrollment Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned shall be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

Signature:
-------------------------
Date:
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EXHIBIT 10.6

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made effective as of the ___th day of _______, 1999, by and between Skechers U.S.A., Inc., a Delaware corporation (the "Company") and _______________ ("Indemnitee").

WHEREAS, it is essential to the Company to retain and attract as directors and executive officers the most capable persons available;

WHEREAS, Indemnitee has recently become, or continues to serve as a(n) _____________ of the Company;

WHEREAS, the Bylaws and the Certificate of Incorporation of the Company require the Company to indemnify its directors and officers to the fullest extent permitted by law and Indemnitee is serving as a director or executive officer of the Company, in part, in reliance on such Bylaws and Certificate of Incorporation; and

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability, to maintain Indemnitee's continued service to the Company in an effective manner in reliance on the aforesaid Bylaws and Certificate of Incorporation, in part, to provide Indemnitee with specific contractual assurance that the protection promised by such Bylaws and Certificate of Incorporation will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of such Bylaws and Certificate of Incorporation or any change in the composition of the Company's Board of Directors or any acquisition transaction relating to the Company), the Company desires to provide in this Agreement for the indemnification of and the advance of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted by law, as set forth in this Agreement and, to the extent officers' and directors' liability insurance is maintained by the Company, to provide for continued coverage of Indemnitee under the Company's officers' and directors' liability insurance policies.

NOW, THEREFORE, in consideration of the covenants contained herein and of Indemnitee's continuing service to the Company directly, or at its request, other enterprises, and intending to be legally bound thereby, the parties hereto agree as follows:

1. CERTAIN DEFINITIONS

(a) Acquiring Person: shall mean any Person other than: (i) the Company; (ii) any of the Company's Subsidiaries; (iii) any employee benefit plan of the Company or of a Subsidiary of the Company or of a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; (iv) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a Subsidiary of the Company or of a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of



stock of the Company; or (v) The Greenberg Family Trust.

(b) Change in Control: shall be deemed to have occurred if: (i) any Acquiring Person is, or becomes the "beneficial owner" (as defined in Rule 13d-3 and 14d-1 under the Securities and Exchange Act of 1934, as amended (the "Exchange Act")), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power or more of the then outstanding Voting Securities of the Company; or (ii) members of the Incumbent Board cease for any reason to constitute at least a majority of the Board of Directors of the Company; or (iii) a public announcement is made of a tender or exchange offer by an Acquiring Person for 50% or more of the outstanding Voting Securities of the Company, and the Board of Directors of the Company approves or fails to oppose that tender or exchange offer in its statements in Schedule 14D-9 under the Exchange Act; or (iv) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, partnership or other entity (or, if no such approval is required, the consummation of such a merger or consolidation of the Company), other than a merger or consolidation that would result in the Voting Securities of the Company outstanding immediately prior to the consummation thereof continuing to represent, either by remaining outstanding or by being converted into Voting Securities of the surviving entity or its parent, at least 80% of the total Voting Securities outstanding immediately after that merger or consolidation; or (v) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (or, if no such approval is required, the consummation of such a liquidation, sale, or disposition in one transaction or series of related transactions) other than a liquidation, sale, or disposition of all or substantially all of the Company's assets in one transaction or a series of related transactions to a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(c) Claim: any threatened, pending, or completed action, suit, proceeding or alternative dispute resolution mechanism (including, without limitation, securities laws actions, suits, and proceedings), or any inquiry, hearing or investigation (including discovery), whether conducted by the Company or any other party, that Indemnitee in good faith believes might lead to the institution of any action, suit, proceeding or alternative dispute resolution mechanism whether civil, criminal, administrative, investigative, or other.

(d) Expenses: include attorneys' fees and all other costs, travel expenses, fees of experts, transcript costs, filing fees, witness fees, telephone charges, postage, delivery service fees, expenses and obligations of any nature whatsoever paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any Claim relating to any Indemnifiable Event.

(e) Incumbent Board: individuals, who, as of _______________ , 1999 constitute the Board of Directors of the Company and any other individual who becomes a director of the Company after that date and whose election or appointment by the Board of



Directors or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board.

(f) Indemnifiable Event: any event or occurrence related to the fact that Indemnitee is or was a director, officer, employee, agent, or fiduciary of the Company, or is or was serving at the request of the Company as a director, officer, employee, trustee, agent, or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust, or other enterprise, or by reason of anything done or not done by Indemnitee in any such capacity. For purposes of this Agreement, the Company agrees that Indemnitee's service on behalf of or with respect to any Subsidiary of the Company shall be deemed to be at the request of the Company.

(g) Independent Legal Counsel: special, independent counsel selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld), and who has not otherwise performed services for the Company or for Indemnitee within the last five years (other than as Independent Legal Counsel under this Agreement or similar agreements). Independent Legal Counsel shall not be any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement, nor shall Independent Legal Counsel be any person who has been sanctioned or censured for ethical violations of applicable standards of professional conduct.

(h) Person: any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a limited liability company, a trust, or other entity. A Person, together with that Person's Affiliates and Associates (as those terms are defined in Rule 12b-2 under the Exchange Act), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate, or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting, or disposing of securities of the Company with such Person, shall be deemed a single "Person."

(i) Potential Change in Control: shall be deemed to have occurred if (i) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (ii) any Person (including the Company) publicly announces an intention to take or to consider taking actions that, if consummated, would constitute a Change in Control; (iii) any Acquiring Person who is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 10% or more of the combined voting power of the then outstanding Voting Securities of the Company increases its beneficial ownership of such securities by 5% or more over the percentage so owned by that Person on the date of this Agreement; or (iv) the Board of Directors of the Company adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

(j) Reviewing Party: any appropriate person or body consisting of a member



or members of the Company's Board of Directors or any other person or body appointed by the Board who is not a party to the particular Claim for which Indemnitee is seeking indemnification or Independent Legal Counsel.

(k) Subsidiary: with respect to any Person, any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

(l) Voting Securities: any securities that vote generally in the election of directors, in the admission of general partners, or in the selection of any other similar governing body.

2. BASIC INDEMNIFICATION AND EXPENSE REIMBURSEMENT ARRANGEMENT

(a) If Indemnitee was, is, or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify Indemnitee to the fullest extent permitted by law as soon as practicable but in any event no later than 30 days after written demand is presented to the Company, against any and all Expenses, judgments, fines, penalties, or amounts paid in settlement (including all interest, assessments, and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties, or amounts paid in settlement) of or with respect to that Claim and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement (including the creation of the trust referred to in Section 4 hereof). Notwithstanding anything in this Agreement to the contrary and except as provided in Section 5, prior to a Change in Control, Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any Claim initiated by Indemnitee against the Company or any director or officer of the Company unless the Company has joined in or consented to the initiation of such Claim. Notwithstanding the foregoing, the obligations of the Company under Section 2(a) shall be subject to the condition that the Reviewing Party shall not have determined (in a written opinion, in any case in which Independent Legal Counsel referred to in Section 3 hereof is involved) that Indemnitee would not be permitted to be indemnified under applicable law. Nothing contained in this Agreement shall require any determination under this Section 2(a) to be made by the Reviewing Party prior to the disposition or conclusion of the Claim against the Indemnitee; provided, however, that Expense Advances shall continue to be made by the Company pursuant to and to the extent required by the provisions of Section 2(b).

(b) If so requested by Indemnitee, the Company shall pay any and all Expenses incurred by Indemnitee (or, if applicable, reimburse Indemnitee for any and all Expenses incurred by Indemnitee and previously paid by Indemnitee) within five business days after such request (an "Expense Advance"). The Company shall be obligated to make or pay an Expense Advance in advance of the final disposition or conclusion of any Claim. In connection with any request for an Expense Advance, if requested by the Company, Indemnitee or



Indemnitee's counsel shall submit an affidavit stating that the Expenses incurred were reasonable. Any dispute as to the reasonableness of any Expense shall not delay an Expense Advance by the Company, and the Company agrees that any such dispute shall be resolved only upon the disposition or conclusion of the underlying Claim against the Indemnitee. If, when, and to the extent that the Reviewing Party determines that Indemnitee would not be permitted to be indemnified with respect to a Claim under applicable law, the Company shall be entitled to be reimbursed by Indemnitee and Indemnitee hereby agrees to reimburse the Company without interest (which agreement shall be an unsecured obligation of Indemnitee) for all related Expense Advances theretofore made or paid by the Company; provided, however, that if Indemnitee has commenced legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance, and the Company shall be obligated to continue to make Expense Advances, until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). If there has not been a Change in Control, the Reviewing Party shall be selected by the Board of Directors of the Company. If there has been a Change in Control, the Reviewing Party shall be advised by or shall be the Independent Legal Counsel referred to in Section 3 hereof, if and as Indemnitee so requests. If there has not been any determination by the Reviewing Party or if the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under applicable law, Indemnitee shall have the right to commence litigation in any court of the States of California or Delaware having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and Indemnitee.

3. CHANGE IN CONTROL

The Company agrees that, if there is a Change in Control and if Indemnitee requests in writing that Independent Legal Counsel advise the Reviewing Party or be the Reviewing Party, then the Company shall not deny any indemnification payments (and Expense Advances shall continue to be paid by the Company pursuant to Section 2(b)) that Indemnitee requests or demands under this Agreement or any other agreement or law now or hereafter in effect relating to Claims for Indemnifiable Events. The Company further agrees not to request or seek reimbursement from Indemnitee of any related Expense Advances unless, with respect to a denied indemnification payment, Independent Legal Counsel has rendered its written opinion to the Company and Indemnitee that the Company would not be permitted under applicable law to pay Indemnitee such indemnification payment. The Company agrees to pay the reasonable fees of Independent Legal Counsel referred to in this Section 3 and to indemnify fully Independent Legal Counsel against any and all expenses (including attorneys' fees), claims, liabilities, and damages arising out of or relating to this Agreement or Independent Legal Counsel's engagement



pursuant hereto.

4. ESTABLISHMENT OF TRUST

In the event of a Potential Change in Control, the Company shall, upon written request by Indemnitee, create a trust for the benefit of Indemnitee (the "Trust") and from time to time upon written request of Indemnitee the Company shall fund the Trust in an amount sufficient to satisfy any and all

Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for, and defending any Claim relating to an Indemnifiable Event, and any and all judgments, fines, penalties, and settlement amounts of any and all Claims relating to an Indemnifiable Event from time to time actually paid or claimed, reasonably anticipated, or proposed to be paid. The amount or amounts to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by the Reviewing Party, in any situation in which Independent Legal Counsel referred to in Section 3 is involved. The terms of the Trust shall provide that, upon a Change in Control, (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of Indemnitee; (ii) the trustee of the Trust shall advance, within five business days of a request by Indemnitee, any and all Expenses to Indemnitee (and Indemnitee hereby agrees to reimburse the Trust under the circumstances in which Indemnitee would be required to reimburse the Company for Expense Advances under Section 2(b) of this Agreement); (iii) the Trust shall continue to be funded by the Company in accordance with the funding obligation set forth above; (iv) the trustee of the Trust shall promptly pay to Indemnitee all amounts for which Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise; and (v) all unexpended funds in that Trust shall revert to the Company upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that Indemnitee has been fully indemnified under the terms of this Agreement. The trustee of the Trust shall be chosen by Indemnitee. Nothing in this Section 4 shall relieve the Company of any of its obligations under this Agreement. All income earned on the assets held in the trust shall be reported as income by the Company for federal, state, local and foreign tax purposes.

5. INDEMNIFICATION FOR ADDITIONAL EXPENSES

The Company shall indemnify Indemnitee against any and all costs and expenses (including attorneys' and expert witnesses' fees) and, if requested by Indemnitee, shall (within five business days of that request) advance those costs and expenses to Indemnitee, that are incurred by Indemnitee in connection with any claim asserted against or action brought by Indemnitee for (i) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement or provision of the Company's Certificate of Incorporation or Bylaws now or hereafter in effect relating to Claims for Indemnifiable Events and/or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to that indemnification, advance expense payment, or insurance recovery, as the case may be.



6. PARTIAL INDEMNITY

If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines, penalties, and amounts paid in settlement of a Claim but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

7. CONTRIBUTION

(a) Contribution Payment: To the extent the indemnification provided for under any provision of this Agreement is determined (in the manner hereinabove provided) not to be permitted under applicable law, then if Indemnitee was, is, or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount of any and all Expenses, judgments, fines, or penalties assessed against or incurred or paid by Indemnitee on account of that Claim and any and all amounts paid in settlement of that Claim (including all interest, assessments, and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties, or amounts paid in settlement) for which such indemnification is not permitted ("Contribution Amounts"), in such proportion as is appropriate to reflect the relative fault with respect to the Indemnifiable Event giving rise to the Contribution Amounts of Indemnitee, on the one hand, and of the Company and any and all other parties (including officers and directors of the Company other than Indemnitee) who may be at fault with respect to such Indemnifiable Event (collectively, including the Company, the "Third Parties") on the other hand.

(b) Relative Fault: The relative fault of the Third Parties and the Indemnitee shall be determined (i) by reference to the relative fault of Indemnitee as determined by the court or other governmental agency assessing the Contribution Amount, or (ii) to the extent such court or other governmental agency does not apportion relative fault, by the Reviewing Party (which shall include Independent Legal Counsel) after giving effect to, among other things, the relative intent, knowledge, access to information, and opportunity to prevent or correct the applicable Indemnifiable Event and other relevant equitable considerations of each party. The Company and Indemnitee agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation or by any other method of allocation which does take account of the equitable considerations referred to in this Section 7(b).



8. BURDEN OF PROOF

It shall be a defense to any action brought by the Indemnitee against the Company to enforce this Agreement (other than an action brought to enforce a claim for expenses incurred in defending a Claim in advance of its final disposition where the required undertaking has been tendered by the Company) that the Indemnitee has not met the standards of conduct that make it permissible under the Delaware General Corporation Law for the Company to indemnify the Indemnitee for the amount claimed. In connection with any determination by the Reviewing Party or otherwise as to whether Indemnitee is entitled to be indemnified under any provision of this Agreement or to receive contribution pursuant to Section 7 of this Agreement, the burden of proof shall be on the Company to establish that Indemnitee is not so entitled.

9. NO PRESUMPTION

For purposes of this Agreement, the termination of any claim, action, suit, or proceeding, by judgment, order, settlement (whether with or without court approval), or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

10. NON-EXCLUSIVITY

The rights of Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Company's Certificate of Incorporation or Bylaws, the Delaware General Corporation Law or otherwise. To the extent that a change in the Delaware General Corporation Law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Company's Certificate of Incorporation or Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by that change.

11. NO CONSTRUCTION AS EMPLOYMENT AGREEMENT

Nothing contained herein shall be construed as giving Indemnitee any right to be retained in the employ of the Company of any of its Subsidiaries.

12. LIABILITY INSURANCE

Except as otherwise agreed to by the Company and Indemnitee in a written agreement, to the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, Indemnitee shall be covered by that policy or those policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer.



13. PERIOD OF LIMITATIONS

No legal action shall be brought and no cause of action shall be asserted by or on behalf of the Company or any affiliate of the Company against Indemnitee or Indemnitee's spouse, heirs, executors, or personal or legal representatives after the expiration of three years from the date of accrual of that cause of action, and any claim or cause of action of the Company or its affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within that three-year period; provided, however, that, if any shorter period of limitations is otherwise applicable to any such cause of action, the shorter period shall govern.

14. AMENDMENTS

No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall that waiver constitute a continuing waiver.

15. SUBROGATION

In the event of payment under this Agreement, the Company shall be subrogated to the extent of that payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure those rights, including the execution of the documents necessary to enable the Company effectively to bring suit to enforce those rights.

16. NO DUPLICATION OF PAYMENTS

The Company shall not be liable under this Agreement to make any payment in connection with any claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment (under any insurance policy, provision of the Company's charter or Bylaws or otherwise) of the amounts otherwise indemnifiable hereunder.

17. BINDING EFFECT; MERGER

This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns (including any direct or indirect successor by purchase, merger, consolidation, or otherwise to all or substantially all of the business or assets of the Company), spouses, heirs, and personal and legal representatives. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all, or by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. This Agreement shall continue in effect regardless of whether



Indemnitee continues to serve as an officer or director of the Company or another enterprise at the Company's request.

18. SEVERABILITY

If any provision of this Agreement is held to be illegal, invalid, or unenforceable under present or future laws effective during the term hereof, that provision shall be fully severable; this Agreement shall be construed and enforced as if that illegal, invalid, or unenforceable provision had never comprised a part hereof; and the remaining provisions shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of that illegal, invalid, or unenforceable provision, there shall be added automatically as a part of this Agreement a provision as similar in terms to the illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable.

19. GOVERNING LAW

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in that state without giving effect to the principles of conflicts of laws or choice of laws.

20. CONSTRUCTION

The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Pronouns shall be construed to include the masculine, feminine, neuter, singular and plural as the context requires.

21. NOTICES

Whenever this Agreement requires or permits notice to be given by one party to the other, such notice must be in writing to be effective and shall be deemed delivered and received by the party to whom it is sent upon actual receipt (by any means) of such notice. Receipt of a notice by any officer of the Company shall be deemed receipt of such notice by the Company.

22. COUNTERPARTS

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but in making proof hereof it shall not be necessary to produce or account for more than one such counterpart.



IN WITNESS WHEREOF, the undersigned has executed this agreement as of the date first written above.

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

By: ___________________________________
Robert Greenberg
Chief Executive Officer

INDEMNITEE:

By: ___________________________________

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, 1999, except for Note 12 which is as of May , 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
May 10, 1999

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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