

REGISTRATION NO. 333-60065

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 3

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.

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

JUNE 1, 1999

10,715,000 SHARES
[SKECHERS U.S.A. INC.]

CLASS A COMMON STOCK

This is the initial public offering of Skechers U.S.A., Inc. Of the 10,715,000 shares of Class A common stock being offered, we are offering 8,925,000 shares and 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.

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

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.

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

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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.

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THE OFFERING

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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.

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

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

THE RECAPITALIZATION

Pursuant to a recapitalization (the "Recapitalization"), the Company 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 have identical rights other than with respect to voting, conversion and transfer. The Class A Common Stock is entitled to one vote per share while the Class B Common Stock is entitled to ten votes per share on all matters submitted to a vote of stockholders. The shares of Class B Common Stock are convertible at any time at the option of the holder into shares of Class A Common Stock on a share-for-share basis. In addition, shares of Class B Common Stock are 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

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

Except as otherwise specified, all information in this Prospectus (i) assumes no exercise of the Underwriters' over-allotment option (see "Underwriting"), (ii) excludes 5,215,154 shares of Class A Common Stock reserved for issuance under the Company's 1998 Stock Option, Deferred Stock and Restricted Stock Plan (the "Stock Option Plan") and 2,781,415 shares of Class A Common Stock reserved for issuance under the Company's 1998 Employee Stock Purchase Plan (the "1998 Purchase Plan") and (iii) gives effect to the Recapitalization and to the reincorporation of the Company in Delaware, whereby the existing California corporation was 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 approximately 13,907 shares of \$.001 par value Class B Common Stock of the new Delaware corporation. Unless the context indicates otherwise, all references herein to the Company refer to Skechers U.S.A., Inc., its predecessor entity, and its wholly-owned subsidiary.

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

<TABLE>
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	THREE MONTHS ENDED						
	YEAR ENDED DECEMBER 31,				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

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	AS OF MARCH 31, 1999			
	AS OF	PRO FORMA		
	DECEMBER 31, 1998	ACTUAL	PRO FORMA(4)	AS ADJUSTED(4)(5)
<S>	<C>	<C>	<C>	<C>
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

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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

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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."

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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, disputes regarding Chinese trade policies, including the country's inadequate protection of United States intellectual property rights, and current relations with China regarding weapons information there has been, and may be in the future, opposition to the extension of "normal trade relations"

status for China. By the end of July 1999, Congress will decide whether to extend "normal trade relations" for another year. 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

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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 cyclicity and any related fluctuation in consumer demand could have a material adverse effect on the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Quarterly Results and Seasonality" and "Business -- Sales."

EXPOSURE TO FLUCTUATIONS IN ECONOMIC CONDITIONS

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

INTENSE COMPETITION IN THE FOOTWEAR INDUSTRY

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

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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,

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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

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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

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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."

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USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of the 8,925,000 shares of Class A Common Stock offered by the Company (after deducting the estimated underwriting discounts and commissions and estimated Offering expenses payable by the Company) are estimated to be \$114.2 million. The Company intends to apply the net proceeds from the Offering (i) to repay all indebtedness owed under its revolving line of credit (which had an outstanding balance of \$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

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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."

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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		
	PRO FORMA,		
	ACTUAL	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>

(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		TOTAL	
	PURCHASED		CONSIDERATION	
	-----		-----	AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT PER SHARE

<S>	<C>	<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.

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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>

	THREE MONTHS ENDED						
	YEAR ENDED DECEMBER 31,					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>

	AS OF DECEMBER 31,				AS OF	
	1994	1995	1996	1997	1998	MARCH 31, 1999

<S>

<C> <C> <C> <C> <C> <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>

- (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.

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

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

OVERVIEW

The Company designs and markets branded contemporary casual, active, rugged and lifestyle footwear for men, women and children. The Company sells its products to department stores such as Nordstrom, Macy's, Dillard's, Robinson's-May and JC Penney, and specialty retailers such as Genesco's Journeys and Jarman chains, The Venator Group's Foot Locker and Lady Foot Locker chains, Pacific Sunwear and Footaction U.S.A. The Company's marketing focus is to maintain and enhance recognition of the Skechers brand name as a casual, active, youthful, lifestyle brand that stands for quality, comfort and design innovation. Although the Company spent 18.3% of net sales on marketing in the fourth quarter of 1998, which raised total marketing expenditures for the year to 11.3% of net sales, the Company typically endeavors to spend between 8.0% and 10.0% of net sales in the marketing of Skechers footwear through an integrated effort of advertising, promotions, public relations, trade shows and other marketing efforts.

The Company was founded in 1992 as a distributor of Dr. Martens footwear. The Company began designing and marketing men's footwear under the Skechers brand name and other brand names including "Cross Colours," "Karl Kani" and "So . . . L.A." in 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

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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

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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 19.0% 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>

	THREE MONTHS				
	YEAR ENDED DECEMBER 31,		ENDED MARCH 31,		
	1996	1997	1998	1998	1999
<S>	<C>	<C>	<C>	<C>	<C>
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.

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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

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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.

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 prior to the consummation of the Offering will declare the Final 1998 Distribution, estimated to be \$7.6 million, the Final Tax

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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>

	1997			1998			1999		
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31	MARCH 31	JUNE 30	SEPT. 30	DEC. 31	MARCH 31

THREE MONTHS ENDED (IN THOUSANDS)									
<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

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

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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

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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 June 15, 2000. 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.

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BUSINESS

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

GENERAL

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

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

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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

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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.

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 gusseted tongues to prevent penetration of water and debris, cushioned mid-soles, motion control devices such as heel cups, water-resistant or water-proof construction and materials and heavier, more durable hardware such as metal D-rings instead of eyelets. Uppers are generally constructed of heavily oiled newbuck and full-grain leathers. Suggested retail price points range from \$55.00 to \$100.00 for this category.

Sandalized Footwear. The Company's Sandalized footwear features open-toe and open-side constructions consistent with the Company's offering in the Sport Utility, Classics, Skechers Collection and Skechers Sport categories of footwear. Such footwear includes fisherman's sandals, shower sandals, beach sandals, slides, comfort-oriented land sandals and technically-inspired water sport sandals. Sandalized footwear includes both leather and synthetic constructions and may feature suede footbeds with form-fitting mid-soles. The Company typically delivers its Sandalized

footwear to retailers from February to August. Suggested retail price points range from \$20.00 to \$60.00 for this category.

Women's Footwear

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

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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

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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

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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, Dillard's, Robinson's-May and JC Penney and specialty retailers such as Genesco's Journeys and Jarman chains, The Venator Group's Foot Locker and Lady Foot Locker chains, Pacific Sunwear and Footaction U.S.A. During the year ended December 31, 1998 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

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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,

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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

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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-

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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

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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.

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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 DT 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
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<S>	<C>	<C>
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 Christopoulos.....	41	Vice President, Finance
Larry Clark.....	42	Vice President, Production and Sourcing
Lynda Cumming.....	39	Vice President, Allocation and Production
Paul Galliher.....	49	Vice President, Distribution
Kathy Garber.....	39	Vice President, Product Development
Jason Greenberg.....	29	Vice President, Visual Imaging
Jeffrey Greenberg.....	31	Vice President, Electronic Media
Scott Greenberg.....	38	Vice President, Visual Merchandising
Geric Johnson.....	47	Vice President, Direct Marketing
Michelle Kelchak.....	35	Vice President, Design
Mark Nason.....	37	Vice President, Retail and Merchandising
Ralph Vendetti.....	43	Vice President, Sales

</TABLE>

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

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

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

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

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

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

June 1991 to December 1994.

John Quinn will become a director of the Company upon the effective date 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 effective date 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 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

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>

		LONG-TERM COMPENSATION						
		ANNUAL COMPENSATION	AWARDS		PAYOUTS			
		OTHER ANNUAL COMPENSATION	SECURITIES UNDERLYING	LTIP	PAYOUTS		ALL OTHER	
NAME AND PRINCIPAL POSITION	YEAR	SALARY(\$)	BONUS(\$)	(\$)(1)	OPTIONS(#)	(\$)(2)	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)		

</TABLE>

(1) Represents the amount of an automobile lease for the benefit of each officer. With respect to Robert Greenberg and David Weinberg, excludes rental payments of \$12,000 and \$18,000, respectively, in 1998 and 1997 made by the Company directly to landlords regarding properties used primarily for corporate purposes but which are leased under the individuals' names.

(2) With respect to 1997, represents payment of a bonus under the Company's 1996 Incentive Compensation Plan based on the increase of the Company's net sales from 1996 to 1997 and with respect to 1998, represents payment of a bonus based on the increase of the Company's net sales from 1996 to 1998. The bonuses for Michael Greenberg and David Weinberg under the Company's 1996

Incentive Compensation Plan were 0.3% and 0.2% in 1997, respectively, and 0.4% and 0.1% in 1998, respectively, of the increase in net sales volumes, respectively.

- (3) Represents health and life insurance payments for 1998 and 1997, respectively.
- (4) Represents health and life insurance payments of \$7,059 and \$9,601 and a \$4,800 and a \$3,095 contribution by the Company under the Company's 401(k) Plan for 1998 and 1997, respectively.

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

Employment Agreements

Each of Messrs. Robert Greenberg, Michael Greenberg and David Weinberg will enter into an employment agreement with the Company, which will be effective as of the consummation of the Offering. The employment agreements will each have an initial term expiring three years from the closing of the Offering. Each officer will be entitled to an annual base salary and an annual bonus based on the Company's return on equity which bonus will not exceed 100% of the officer's base salary. The annual base salary for Robert Greenberg, Michael Greenberg and David Weinberg will be \$500,000, \$350,000 and \$250,000, respectively.

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, 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 (iii) any benefits under the agreement. During a period of total disability, the officer will receive his base salary, less any amounts paid under insurance policies provided by the Company, for the remaining term of the employment 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.

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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.

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Options to acquire 1,390,715 shares of Class A Common Stock are outstanding at an exercise price per share of \$2.78. Of this amount, 278,142 were granted to David Weinberg, of which 25.0% will vest on the consummation of the Offering, and the balance will vest over the next three years. In addition, options to purchase 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

<TABLE>

<CAPTION>

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

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

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

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

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

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

YEAR-END OPTION VALUES

<TABLE>

<CAPTION>

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1998(1)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1998(2)	
	EXERCISABLE(#)	UNEXERCISABLE(\$)	EXERCISABLE(\$)	UNEXERCISABLE(\$)

<S>	<C>	<C>	<C>	<C>
Robert Greenberg.....	--	--	--	--
Michael Greenberg.....	--	--	--	--
David Weinberg.....	--	278,142	--	484,000

- (1) Upon the completion of the Offering, 25% of the options immediately vest and the balance will vest over the next three years.
- (2) The value of the unexercised "in-the-money" options is based on the fair market value as of December 31, 1998, as determined by the Board of Directors, minus the exercise price, multiplied by the numbers of shares underlying the option.

1998 EMPLOYEE STOCK PURCHASE PLAN

The Company's 1998 Employee Stock Purchase Plan (the "1998 Purchase Plan") was adopted by the Board of Directors and the stockholders in July 1998. The 1998 Purchase Plan, which is intended to qualify under Section 423 of the Code, contains consecutive, overlapping, twelve month offering periods. Each offering period includes two six-month purchase periods. The offering periods generally start on the first trading day on or after January 1 and July 1 of each year. The initial offering period will commence on July 1, 1999 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 15.0% of the participant's "compensation." Compensation is defined as the participant's base straight time gross earnings, including commissions, payments for overtime, incentive bonuses and performance bonuses. Amounts deducted and accumulated by the participant are used to purchase shares of Class A Common Stock at the end of each purchase period. The price of stock purchased under the 1998 Purchase Plan is 85.0% of the lower of the fair market value of the Class A Common Stock at the beginning of the offering period or at the end of the purchase period. The maximum number of shares a participant may purchase during a single offering period is determined by dividing \$25,000 by the fair market value of a share of the Company's Class A Common Stock on the first day of the offering period. In the event the fair market value at the end of a purchase period is less than the fair market value at the beginning of the offering period, the participants will be withdrawn from the current offering period following exercise and automatically re-enrolled in a new offering period. Participants may end their participation at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with the Company.

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

The 1998 Purchase Plan provides that, in the event of a merger of the Company with or into another corporation or a sale of all or substantially all of the Company's assets, each outstanding option may be assumed or substituted

for by the successor corporation. If the successor corporation refuses to assume or substitute for the outstanding options, the offering period then in progress will be shortened and a new purchase date will be set so that shares of Class A Common Stock are purchased with the participant's accumulated payroll deductions prior to the effective date of such transaction.

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

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

401(K) PLAN

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

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

LIMITATIONS ON DIRECTORS' LIABILITIES AND INDEMNIFICATION

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

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

therefrom. Such right of indemnification shall inure to such individuals whether or not the claim asserted is based on matters that antedate the adoption of the Certificate of Incorporation. Such right of indemnification shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs and personal representatives of such a person. The indemnification provided by the Certificate of Incorporation shall not be deemed exclusive of any other rights that may be provided now or in the future under any provision currently in effect or hereafter adopted by the Certificate of Incorporation, by any agreement, by vote of stockholders, by resolution of directors, by provision of law or otherwise. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors of the Company pursuant to the foregoing provision, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange

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

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CERTAIN TRANSACTIONS

At December 31, 1996 and 1997, the Company had approximately \$13.3 million outstanding under an unsecured note payable to the Greenberg Family Trust of which Robert Greenberg, Chairman of the Board and Chief Executive Officer of the Company, and M. Susan Greenberg, Robert Greenberg's wife, are trustees. From January 1, 1997 through June 1998, the note bore interest at 8.0% per annum and was due upon demand after January 1, 1996. The Greenberg Family Trust agreed not to call the note prior to January 1, 1999. In June 1998, the Company issued a \$13.3 million term note under its credit facility with Heller Financial, Inc. to repay the indebtedness to the Greenberg Family Trust. In December 1998, in connection with the amendment and restatement of the Company's credit facility with Heller Financial, Inc., the note was refinanced by the Greenberg Family Trust into the \$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:

<TABLE>
<CAPTION>

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

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

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

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

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

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

<TABLE>
<CAPTION>

NAME OF STOCKHOLDER	PERCENTAGE INTEREST IN THE TRADEMARK	VALUE OF PERCENTAGE INTEREST
<S>	<C>	<C>
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:

<TABLE>
<CAPTION>

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

<S>	<C>	
The Greenberg Family Trust.....	\$	66,000
Michael Greenberg.....	813,000	
Jason Greenberg.....	521,600	
Jeffrey Greenberg.....	597,400	
Joshua Greenberg.....	519,600	
Jennifer Greenberg.....	511,600	

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:

<TABLE>
<CAPTION>

NAME OF STOCKHOLDER -----	FINAL TAX	FINAL S CORPORATION
	DISTRIBUTION	DISTRIBUTION

<S>	<C>	
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."

John Quinn, a nominated director of the Company, is a principal of the law firm of Riordan & McKinzie which provides legal services to the Company.

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.

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PRINCIPAL AND SELLING STOCKHOLDERS

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

<TABLE>

<CAPTION>

NAME OF BENEFICIAL OWNER(1)(2)	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(2)			SHARES BENEFICIALLY OWNED AFTER OFFERING(2)			
	CLASS A			SHARES OF COMMON STOCK OFFERED(3)	CLASS B		
	NUMBER OF SHARES	NUMBER OF SHARES	PERCENT OF POWER		NUMBER OF SHARES	NUMBER OF SHARES	PERCENT OF POWER
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
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.

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DESCRIPTION OF CAPITAL STOCK

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

CLASS A COMMON STOCK AND CLASS B COMMON STOCK

General

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

Voting Rights

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

the rights set forth in any series of Preferred Stock created as described below.

Dividends, Distributions and Stock Splits

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

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

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

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

Conversion of Class B Common Stock

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

Liquidation

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

Mergers and Other Business Combinations

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

voting rights and certain conversion rights to the extent and only to the extent that the voting rights and certain conversion rights of Class A Common Stock and Class B Common Stock differ at that time.

Other Provisions

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

PREFERRED STOCK

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

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

REGISTRATION RIGHTS

The Company has entered into a registration rights agreement with the Greenberg Family Trust, of which Robert Greenberg, Chairman of the Board and Chief Executive Officer, is a Trustee, and Michael Greenberg, President, pursuant to which the Company has agreed that it will, on up to two separate occasions per year, register up to one-third of the shares of Class A Common Stock issuable upon conversion of their Class B Common Stock beneficially owned as of the closing of the Offering by each such stockholder in any one year provided, among other conditions, that the underwriters of any such offering have the right to limit the number of shares included in such registration. 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 provided, among other conditions, that the underwriters of any such offering have the right to limit the number of shares included in such registration. 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

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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.

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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

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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."

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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
-----	-----
<S>	<C>
BT Alex. Brown Incorporated.....	
Prudential Securities Incorporated.....	
Total.....	10,715,000
	=====

</TABLE>

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

The Company and the selling 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

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

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

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EXPERTS

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

ADDITIONAL INFORMATION

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

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SKECHERS U.S.A., INC.

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INDEPENDENT AUDITORS' REPORT

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.

KPMG LLP

Los Angeles, California

March 12, 1999, except as to

Note 12, which is as of May 28, 1999

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SKECHERS U.S.A., INC.

CONSOLIDATED BALANCE SHEETS

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

ASSETS

<TABLE>
<CAPTION>

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

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:				
Short-term borrowings.....	\$22,837	\$ 54,323		
Current installments of long-term borrowings.....	300	816		
Current installments of notes payable to stockholder.....	--	2,244		
Accounts payable.....	36,013	38,145		
Accrued expenses.....	4,681	9,530		
	-----	-----		
Total current liabilities.....	63,831	105,058		
	-----	-----		
Long-term borrowings, excluding current installments.....	2,675	3,550		
Notes payable to stockholder, excluding current installments.....	13,250	10,000		
Commitments and contingencies				
Stockholders' equity:				
Preferred Stock, \$.001 par value; 10,000 shares authorized; none issued and outstanding.....	--	--		
Class A Common Stock, \$.001 par value; 100,000 shares authorized; none issued and outstanding.....	--	--		
Class B Common Stock, \$.001 par value; 60,000 shares authorized; 27,814 shares issued and outstanding.....	2	2		
Additional paid-in capital.....	--	--		
Retained earnings.....	11,123	27,674		
	-----	-----		
Total stockholders' equity.....	11,125	27,676		
	-----	-----		
	\$90,881	\$146,284		
	=====	=====		

</TABLE>

See accompanying notes to consolidated financial statements.

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SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF EARNINGS

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

<TABLE>

<CAPTION>

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

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SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

<TABLE>

<CAPTION>

COMMON STOCK	TOTAL
-----	RETAINED STOCKHOLDERS'

	SHARES	AMOUNT	EARNINGS	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.

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SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(IN THOUSANDS)

<TABLE>

<CAPTION>

	1996	1997	1998
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net earnings.....	\$ 1,910	\$ 11,023	\$ 24,471
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization of property and equipment.....	743	1,137	2,843
Amortization of intangible assets.....	289	1,456	148
Provision (recovery) for bad debts and returns.....	(52)	870	1,423
Loss on disposal of property and equipment.....	--	--	190
(Increase) decrease in:			
Receivables.....	(2,707)	(12,635)	(17,760)
Inventories.....	7,749	(30,021)	(19,558)
Prepaid expenses and other current assets.....	418	(290)	(1,877)
Other assets.....	71	(1,212)	(512)
Increase (decrease) in:			
Accounts payable.....	(4,344)	27,623	2,132
Accrued expenses.....	2,524	(83)	4,249
Net cash provided by (used in) operating activities.....	6,601	(2,132)	(4,251)
Cash flows from investing activities:			
Capital expenditures.....	(630)	(6,239)	(9,434)
Intangible assets.....	(199)	(512)	(14)
Net cash used in investing activities.....	(829)	(6,751)	(9,448)
Cash flows from financing activities:			
Net proceeds related to short-term borrowings.....	(7,337)	10,426	31,486
Proceeds from long-term debt.....	--	3,000	581
Payments on long-term debt.....	--	(25)	(562)
Proceeds from notes payable to stockholder.....	1,250	--	--
Payments on notes payable to stockholder.....	--	--	(1,006)
Distributions to stockholders.....	(112)	(3,234)	(7,320)
Recovery of distributions from stockholders.....	600	--	--
Other.....	(41)	--	--
Net cash provided by (used in) financing			

activities.....	(5,640)	10,167	23,179
	-----	-----	-----
Net increase in cash.....	132	1,284	9,480
Cash at beginning of year.....	46	178	1,462
	-----	-----	-----
Cash at end of year.....	\$ 178	\$ 1,462	\$ 10,942
	=====	=====	=====

Supplemental disclosures of cash flow information:
Cash paid during the year for:

Interest.....	\$ 3,188	\$ 4,186	\$ 8,067
Income taxes.....	30	226	1,416
	=====	=====	=====

</TABLE>

Supplemental disclosure of non-cash investing and financing activities:

During 1998, the Company acquired \$1,372 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.

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

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

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

Revenue Recognition

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

Revenues from royalty agreements are recognized as earned.

Inventories

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

Income Taxes

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

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax

rates is recognized in income in the period that includes the enactment date. Due to the S Corporation election, deferred income taxes have been immaterial.

Depreciation and Amortization

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

<TABLE>	
<S>	<C>
Furniture, fixtures and equipment	5 years
Leasehold improvements	Useful life or remaining lease term, whichever is shorter
</TABLE>	

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

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

Long-Lived Assets

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

Advertising Costs

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

Start-Up Costs

Start-up costs are charged to operations as incurred.

Earnings per Share

The Company reports earnings per share under Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earnings Per Share." Under SFAS No. 128, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share reflects the potential dilution that could occur if securities to issue common stock were exercised or converted into common stock. The weighted average diluted shares outstanding gives effect to the sale by the Company of those shares of Common Stock 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
	-----	-----	-----
<S>	<C>	<C>	<C>
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

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

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

<TABLE>

<S>	<C>
Pro forma net earnings.....	\$24,273
	=====

Pro forma net earnings per share

Basic.....	\$.54
Diluted.....	\$.50

</TABLE>

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

Use of Estimates

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

Product Design and Development Costs

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

Comprehensive Income

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

Fair Value of Financial Instruments

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

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

Reclassifications

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

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(2) PROPERTY AND EQUIPMENT

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

<TABLE>

<CAPTION>

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

</TABLE>

(3) SHORT-TERM BORROWINGS

The Company has available a secured line of credit, as amended in December 1998, permitting borrowings up to \$120,000,000 based upon eligible accounts receivable and inventories. The agreement expires on December 31, 2002. Borrowings bear interest at the rate of prime (7.75% at December 31, 1998) plus .25% or at LIBOR (5.07% at December 31, 1998) plus 2.75% as elected by the Company. The agreement provides for the issuance of letters of credit up to a maximum of \$18,000,000, which decreases the amount available for borrowings under the agreement. Outstanding letters of credit at December 31, 1998 were \$3,942,000. Available borrowings under the line of credit at December 31, 1998 was approximately \$7,000,000. The Company pays an unused line of credit fee of .25% annually. The Company is required to maintain certain financial covenants including specified minimum tangible net worth, working capital and leverage ratios as well as limit the payment of dividends if it is in default of any provision of the agreement. The Company was in compliance with these covenants at December 31, 1998.

(4) NOTES PAYABLE TO STOCKHOLDER

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

(5) LONG-TERM BORROWINGS

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

<TABLE>
<CAPTION>

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

</TABLE>

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

<TABLE>

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

	\$4,366
	=====

</TABLE>

(6) STOCKHOLDERS' EQUITY

In January 1998, the Board of Directors of the Company adopted the 1998 Stock Option, Deferred Stock and Restricted Stock Plan ("Stock Option Plan") for the grant of qualified incentive stock options ("ISO"), stock options not qualified and deferred stock and restricted stock. The exercise price for any option granted may not be less than fair value (110% of fair value for ISOs granted to certain employees). Under the Stock Option Plan, 5,215,154 shares are reserved for issuance. In January 1998, 1,390,715 options were granted at an exercise price of \$2.78 per share which was equal to the fair market value. 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,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

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

<TABLE>
<CAPTION>

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

</TABLE>

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

<TABLE>
<CAPTION>

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

</TABLE>

(8) BUSINESS AND CREDIT CONCENTRATIONS

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

Net sales to customers in the United States exceeded 90% for each of the years in the three year period ended December 31, 1998. All long-lived assets of the Company are located in the United States. The Company has no significant assets outside the United States.

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.

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

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>

	CAPITAL LEASES	OPERATING LEASES
	----- <C>	----- <C>
<S>		
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>

=====

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

THREE-YEAR PERIOD ENDED DECEMBER 31, 1998

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. These arrangements currently bear interest at a rate between 9% and 19% per annum with financing for up to 90 days. The amounts outstanding under these arrangements at December 31, 1997 and 1998 were \$23.1 million and \$23.5 million, respectively, which are included in accounts payable in the accompanying Consolidated Financial Statements. 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.

Effective as of May 28, 1999, 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.

The authorized capital stock of the Delaware corporation consists of 100,000,000 shares of Class A common stock, par value \$.001 per share, and 60,000,000 shares of Class B common stock, par value \$.001 per share. The Company has also authorized 10,000,000 shares of preferred stock, \$.001 par value per share.

The Class A common stock and Class B common stock 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.

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SKECHERS U.S.A., INC.

CONSOLIDATED BALANCE SHEETS

MARCH 31, 1999
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS

<TABLE>
<CAPTION>

	ACTUAL	PRO FORMA
	-----	-----
<S>	<C>	<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.

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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)

<TABLE>

<CAPTION>

	1998	1999
	-----	-----
<S>	<C>	<C>
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 expense.....	(1,484)	(1,754)
Other income.....	409	482
Other expense.....	(345)	--
	-----	-----
	(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.

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SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

THREE-MONTH PERIOD ENDED MARCH 31, 1999
(UNAUDITED)
(IN THOUSANDS)

<TABLE>
<CAPTION>

	COMMON STOCK		TOTAL	
	SHARES	AMOUNT	RETAINED EARNINGS	STOCKHOLDERS' 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.
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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.
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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. The S Corporation distribution is comprised of the April tax distribution of \$3.5 million, the Final 1998 tax distribution of \$7.6 million, the Final tax distribution of \$1.7 million, the Final S Corporation distribution of \$20.0 million and other cash distributions.

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
	----	-----
<S>	<C>	<C>
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>

	MARCH 31		
	-----	-----	
	1998	1999	
	----	-----	
<S>	<C>	<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

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 1999
(UNAUDITED)

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>

	1998	1999	
	-----	-----	
<S>	<C>	<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%

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SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 1999
(UNAUDITED)

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.

Effective as of May 28, 1999, 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.

The authorized capital stock of the Delaware corporation consists of 100,000,000 shares of Class A common stock, par value \$.001 per share, and 60,000,000 shares of Class B common stock, par value \$.001 per share. The Company has also authorized 10,000,000 shares of preferred stock, \$.001 par value per share.

The Class A common stock and Class B common stock 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.

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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.

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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:

<TABLE>

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

</TABLE>

 * Estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law permits the Registrant to, and Article VIII of the Registrant's Amended and Restated Certificate of Incorporation provides that the Registrant shall, indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of the Registrant, or is or was servicing, or has agreed to serve, at the request of the Registrant, as a director, officer or trustee

of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom.

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

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

None.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
1.1	Form of Underwriting Agreement
2.1+	Agreement of Reorganization and Plan of Merger
3.1+	Certificate of Incorporation

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EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
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	Form of 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>

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<TABLE>

<CAPTION>

EXHIBIT

NUMBER

DESCRIPTION OF EXHIBIT

<C> <S>

- | <C> | <S> |
|--------|--|
| 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>

+ Previously filed

(B) SCHEDULES

Schedule II -- Valuation and Qualifying Accounts

ITEM 17. UNDERTAKINGS

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

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act

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

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it is declared effective.

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

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused Amendment No. 3 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 June 1, 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. 3 to this Registration Statement has been signed by the following persons in the capacity indicated on June 1, 1999.

<TABLE>
 <CAPTION>

SIGNATURE -----	TITLE -----
<C> /s/ ROBERT GREENBERG ----- Robert Greenberg	<S> Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
* ----- Michael Greenberg	President and Director
/s/ DAVID WEINBERG ----- David Weinberg	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)

*By: /s/ DAVID WEINBERG

 David Weinberg
 Attorney-in-fact

</TABLE>

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SCHEDULE II

SKECHERS U.S.A., INC.

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

<TABLE>

<CAPTION>

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

</TABLE>

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INDEX TO EXHIBITS

<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
-----	-----
<S>	<C>
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	Form of 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

<S> <C>

- | ----- | ----- |
|--------|---|
| 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>

+ Previously filed

EXHIBIT 1.1

10,715,000 Shares

SKECHERS U.S.A., INC.

Class A Common Stock

(\$0.001 Par Value)

UNDERWRITING AGREEMENT

_____, 1999

BT Alex. Brown Incorporated
Prudential Securities Incorporated
As Representatives of the Several Underwriters
c/o BT Alex. Brown Incorporated
One South Street
Baltimore, Maryland 21202

Ladies and Gentlemen:

Skechers U.S.A., Inc., a Delaware corporation (the "COMPANY"), and the selling stockholders named in Schedule II hereto (the "SELLING STOCKHOLDERS") propose to sell to the several underwriters (the "UNDERWRITERS") named in Schedule I hereto for whom you are acting as representatives (the "REPRESENTATIVES") an aggregate of 10,715,000 shares (the "FIRM SHARES") of the Company's Class A Common Stock, \$0.001 par value (the "CLASS A COMMON Stock"), of which 8,925,000 shares will be sold by the Company and an aggregate of 1,790,000 shares will be sold by the Selling Stockholders. The respective amounts of the Firm Shares to be so purchased by the several Underwriters are set forth opposite their names in Schedule I hereto. Robert M. Greenberg and M. Susan Greenberg, as trustees of the Greenberg Family Trust (the "PRINCIPAL SELLING STOCKHOLDER") also proposes to sell at the Underwriters' option an aggregate of up to 1,607,250 additional shares of the Company's Class A Common Stock (the "OPTION SHARES") as set forth below. The Company and the Selling Stockholders are sometimes referred to herein collectively as the "SELLERS." Michael Greenberg and the Principal Selling Stockholder are sometimes referred to herein collectively as the "MANAGEMENT SELLING STOCKHOLDERS."

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As the Representatives, you have advised the Company and the Selling Stockholders (a) that you are authorized to enter into this Agreement on behalf of the several Underwriters, and (b) that the several Underwriters are willing, acting severally and not jointly, to purchase the numbers of Firm Shares set forth opposite their respective names in Schedule I, plus their pro rata portion of the Option Shares if you elect to exercise the over-allotment option in whole or in part for the accounts of the several Underwriters. The Firm Shares and the Option Shares (to the extent the aforementioned option is exercised) are herein collectively called the "SHARES." The shares of Class A Common Stock and Class B Common Stock, \$0.001 par value (the "CLASS B COMMON STOCK"), of the Company to be outstanding after giving effect to the sales contemplated hereby are hereinafter referred to as the "COMMON STOCK."

In consideration of the mutual agreements contained herein and of the interests of the parties in the transactions contemplated hereby, the parties hereto agree as follows:

1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SELLING STOCKHOLDERS.

(a) The Company and each of the Management Selling Stockholders, jointly and severally, represent and warrant to each of the Underwriters as follows:

(i) A registration statement on Form S-1 (File No. 333-60065) with respect to the Shares has been prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "ACT"), and the Rules and Regulations (the "RULES AND REGULATIONS") of the Securities and Exchange Commission (the "COMMISSION") thereunder and has been filed with the Commission. Copies of such registration statement, including any amendments thereto, the preliminary prospectuses (meeting the requirements of the Rules and Regulations) contained therein and the exhibits, financial statements and schedules, as finally amended and revised, have heretofore been delivered by the Company to you. Such registration statement, together with any registration statement filed by the Company pursuant to Rule 462(b) of the Act, herein referred to as the "REGISTRATION Statement," which shall be deemed to include all information omitted therefrom in reliance upon Rule 430A and contained in the Prospectus referred to below, has become effective under the Act and no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement. "PROSPECTUS" means the form of prospectus first filed with the Commission pursuant to Rule 424(b). Each preliminary prospectus included in the Registration Statement prior to the time it becomes effective is herein referred to as a "PRELIMINARY PROSPECTUS." Any reference herein to the Registration Statement, any Preliminary Prospectus or to the Prospectus shall be deemed to refer to and include any supplements or amendments thereto, filed with the Commission after the date of filing of the Prospectus under Rules 424(b) or 430A, and prior to the termination of the offering of the Shares by the Underwriters.

(ii) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement. The subsidiary of the Company listed in Exhibit 21 to Item 16(a) of the Registration Statement (the "SUBSIDIARY") has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement. The Company and the Subsidiary are duly qualified to transact business in all jurisdictions in which the conduct of their business requires such qualification, except where

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the failure to be so qualified would not have a material adverse effect on the earnings, business, management, properties, assets, rights, operations or condition (financial or otherwise) of the Company and the Subsidiary taken as a whole. The outstanding shares of capital stock of the Subsidiary have been duly authorized and validly issued, are fully paid and non-assessable and are owned by the Company free and clear of all liens, encumbrances and equities and claims; and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into shares of capital stock or ownership interests in the Subsidiary are outstanding.

(iii) Except for the Subsidiary, the Company does not own or control, directly or indirectly, any corporation, association or other entity.

(iv) The outstanding shares of Common Stock of the Company, including all shares to be sold by the Selling Stockholders, have been duly authorized and validly issued and are fully paid and non-assessable; the Shares to be issued and sold by the Company have been duly authorized and when issued and paid for as contemplated herein will be validly issued, fully paid and non-assessable; and no preemptive rights of stockholders exist with respect to any of the Shares or the issue and sale thereof. Neither the filing of the Registration Statement nor the offering or sale of the Shares as contemplated by this Agreement gives rise to any rights, other than those which have been waived or satisfied, for or relating to the registration of any shares of Common Stock.

(v) The information set forth under the caption "Capitalization" in the Prospectus is true and correct. All of the Shares conform to the description thereof contained in the Registration Statement. The form of certificates for the Shares conforms to the corporate law of the jurisdiction of the Company's incorporation.

(vi) The Commission has not issued an order preventing or suspending the use of any Prospectus relating to the proposed offering of the Shares nor instituted proceedings for that purpose. The Registration Statement contains, and the Prospectus and any amendments or supplements thereto will contain, all statements which are required to be stated therein by, and will conform, to the requirements of the Act and the Rules and Regulations. The Registration Statement and any amendment thereto do not contain, and will not contain, any untrue statement of a material fact and do not omit, and will not omit, to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The Prospectus and any amendments and supplements thereto do not contain, and will not contain, any untrue statement of material fact; and do not omit, and will not omit, to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representations or warranties as to information contained in or omitted from the Registration Statement or the Prospectus, or any such amendment or supplement, in reliance upon, and in conformity with, written information furnished to the Company by or on behalf of any Underwriter through the Representatives, specifically for use in the preparation thereof.

(vii) The financial statements of the Company and the Subsidiary, together with related notes and schedules as set forth in the Registration Statement, present fairly the financial position and the results of operations and cash flows of the Company and the Subsidiary, at the indicated dates and for the indicated periods. Such financial statements and related schedules have been prepared in accordance with generally accepted principles of accounting, consistently applied throughout the periods involved,

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except as disclosed therein, and all adjustments necessary for a fair presentation of results for such periods have been made. The financial data set forth in the Prospectus under the captions "Prospectus Summary - Summary Financial Data," "Selected Financial Data" and "Capitalization" presents fairly the information shown therein and such data has been compiled on a basis consistent with the financial statements presented therein and the books and records of the Company.

(viii) KPMG LLP, who have certified certain of the financial statements filed with the Commission as part of the Registration Statement, are independent public accountants as required by the Act and the Rules and Regulations.

(ix) There is no action, suit, claim or proceeding pending or, to the knowledge of the Company, threatened against the Company or the Subsidiary before any court or administrative agency or otherwise which if determined adversely to the Company or the Subsidiary might result in any material adverse change in the earnings, business, management, properties, assets, rights, operations or condition (financial or otherwise) of the Company and of the Subsidiary, taken as a whole, or to prevent the consummation of the transactions contemplated hereby, except as set forth in the Registration Statement.

(x) The Company and the Subsidiary have good and marketable title to all of the properties and assets reflected in the financial statements (or as described in the Registration Statement) hereinabove described, subject to no lien, mortgage, pledge, charge or encumbrance of any kind except those reflected in such financial statements (or as described in the Registration Statement) or which do not materially and adversely affect the value of such property and do not materially interfere with the use made or proposed to be made of such property by the Company and the Subsidiary. The Company and the Subsidiary occupy their leased properties under valid and binding leases with such exceptions as are not material and do not materially interfere with the use made or proposed to be made of such real property, conforming in all material respects to the description thereof set forth in the Registration Statement.

(xi) The Company and the Subsidiary have filed all Federal, State, local and foreign tax returns which have been required to be

filed and have paid all taxes indicated by said returns and all assessments received by them or either of them to the extent that such taxes have become due and are not being contested in good faith and for which an adequate reserve for accrual has been established in accordance with generally accepted accounting principles. All tax liabilities have been adequately provided for in the financial statements of the Company, and the Company has not received any notification of taxes due and owing from the Internal Revenue Service or California taxation authorities.

(xii) Since the respective dates as of which information is given in the Registration Statement, as it may be amended or supplemented, there has not been any material adverse change or any development known to the Company that is likely to result in the future in a material adverse change in or affecting the earnings, business, management, properties, assets, rights, operations or condition (financial or otherwise), of the Company and the Subsidiary taken as a whole, whether or not occurring in the ordinary course of business, there has not been any material transaction entered into by the Company or the Subsidiary, other than transactions in the ordinary course of business and changes and transactions described in the Registration Statement, as it may be amended or supplemented, and the Company and the Subsidiary have not incurred any material contingent obligations.

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(xiii) Neither the Company nor the Subsidiary is or, with the giving of notice or lapse of time or both, will be in violation of or in default under its Certificate of Incorporation or Bylaws, as applicable, or under any agreement, lease, contract, indenture or other instrument or obligation to which it is a party or by which it, or any of its properties, is bound and which default would have a material adverse effect on the earnings, business, management, properties, assets, rights, operations or condition (financial or otherwise) of the Company and the Subsidiary taken as a whole. The execution and delivery of this Agreement and the consummation of the transactions herein contemplated and the fulfillment of the terms hereof will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument that is material to the Company and the Subsidiary taken as a whole, or of the Certificate of Incorporation or Bylaws of the Company or any order, rule or regulation applicable to the Company or the Subsidiary of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction.

(xiv) Each approval, consent, order, authorization, designation, declaration or filing by or with any regulatory, administrative or other governmental body necessary in connection with the execution and delivery by the Company of this Agreement and the consummation of the transactions herein contemplated (except such additional steps as may be required by the Commission, the National Association of Securities Dealers, Inc. (the "NASD") or such additional steps as may be necessary to qualify the Shares for public offering by the Underwriters under state securities or Blue Sky laws) has been obtained or made and is in full force and effect.

(xv) The Company and the Subsidiary own or possess adequate licenses or other rights to use all patents, patent rights inventions, trade secrets, copyrights, trademarks, service marks, trade names, technology and know-how currently employed or proposed to be employed by it in connection with their business as described in the Prospectus. Neither the Company nor the Subsidiary is obligated to pay a royalty, grant a license, or provide other consideration to any third party in connection with its patents, copyrights, trademarks, service marks, trade names, or technology other than royalties, licenses or other consideration that would not be material to the business of the Company and the Subsidiary taken as a whole or as disclosed in the Prospectus, and except as disclosed in the Prospectus, neither the Company nor the Subsidiary has received any notice of infringement or conflict with (and neither the Company nor the Subsidiary knows of any infringement or conflict with) asserted rights of others with respect to any patents, patent rights, inventions, trade secrets, copyrights, trademarks, service marks, trade names, technology or know-how which infringement or conflict, if the subject of an unfavorable decision, would be material to the business of the Company and the Subsidiary taken as a whole. Except as disclosed in the Prospectus, the discoveries, inventions, products or processes of the Company and the Subsidiary

referred to in the Prospectus do not, to the knowledge of the Company or the Subsidiary, infringe or conflict with any right or patent of any third party, or any discovery, invention, product or process which is the subject of a patent application filed by any third party, known to the Company or the Subsidiary, which infringement or conflict is material to the business of the Company and the Subsidiary taken as a whole.

(xvi) Neither the Company nor, to the Company's knowledge, any of its affiliates has taken or may take, directly or indirectly, any action designed to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the shares of Common Stock to facilitate the sale or resale of the Shares.

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(xvii) Neither the Company nor the Subsidiary is, and after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Prospectus neither the Company nor the Subsidiary will be, an "investment company" or an "affiliated person" or "promoter" or "principal underwriter" for an "investment company," within the meaning of such terms under the Investment Company Act of 1940, (as amended, the "1940 ACT") and the rules and regulations of the Commission thereunder.

(xviii) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xix) The Company and the Subsidiary carry, or is covered by, insurance in such amounts and covering such risks as is adequate for the conduct of their respective businesses and the value of their respective properties and as is customary for companies engaged in similar industries.

(xx) The Company is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"), the violation of which would have a material adverse effect on the earnings, business, management, properties, assets, rights, operations or condition (financial or otherwise) of the Company; no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company would have any material liability; the Company has not incurred and does not expect to incur liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder (the "CODE"); and each "pension plan" for which the Company would have any material liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(xxi) To the Company's knowledge, there are no affiliations or associations between any member of the NASD and any of the Company's officers, directors or 5% or greater securityholders, except as set forth in the Registration Statement.

(xxii) The Company has full corporate power and authority to enter into this Agreement and perform the transactions contemplated hereby. This Agreement has been duly authorized, executed and delivered by the Company and constitutes a valid and binding obligation the Company enforceable in accordance with its terms except as rights to indemnity and contribution hereunder may be limited as a matter of applicable public policy or by applicable laws and except as the enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws

affecting creditors' rights generally, or by general equitable principles.

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(xxiii) The execution and delivery of the Agreement and Plan of Merger dated as of May 7, 1999 (the "MERGER AGREEMENT") between Skechers U.S.A., Inc., a California corporation (the "CALIFORNIA CORPORATION"), and the Company, effecting the reincorporation of the California Corporation under the laws of the State of Delaware, was duly authorized by all necessary corporate action on the part of each of the California Corporation and the Company. Each of the California Corporation and the Company had all corporate power and authority to execute and deliver the Merger Agreement, to file the Merger Agreement with the Secretary of State of California and the Secretary of State of Delaware and to consummate the reincorporation contemplated by the Merger Agreement, and the Merger Agreement at the time of execution and filing constituted a valid and binding obligation of each of the California Corporation and the Company, enforceable in accordance with its terms and except as the enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting creditors' rights generally, or by general equitable principles.

(xxiv) No material labor dispute with the employees of the Company or the Subsidiary exists, except as described in the Prospectus, or, to the knowledge of the Company and the Subsidiary, is imminent.

(xxv) No business relationship, or related party transactions, exists between or among the Company or the Subsidiary, on the one hand, and the directors officers, stockholders, customers or suppliers of the Company or the Subsidiary, on the one hand, which is required to be described in the Prospectus that is not so described.

(xxvi) Neither the Company nor the Subsidiary, nor any director, officer, agent, employee or other person associated with or acting on behalf of the Company or the Subsidiary, has used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of any provisions of the Foreign Corrupt Practices Act of 1972; or made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(xxvii) Neither the Company nor the Subsidiary is a "passive foreign investment company" within the meaning of Section 1296 of the Code for its taxable year which includes the date hereof and to the knowledge of the Company and the Subsidiary, neither the Company nor the Subsidiary will be a "passive foreign investment company" for the subsequent taxable year.

(xxviii) Except as disclosed in the Prospectus, there is no (i) administrative or judicial proceeding pending or, to the Company's knowledge, threatened to which the Company or the Subsidiary is a party or to which any of the properties of the Company or the Subsidiary is subject arising under any Federal, state or local provisions that have been enacted or adopted regulating the discharge of materials into the environment or primarily for the purpose of protecting the environment; or (ii) material adverse effect upon the Company or the Subsidiary arising from compliance with Federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment.

(xxix) For all periods from its election under Subchapter S of the Code until [_____, 1999] (the "TERMINATION DATE"), the California Corporation was qualified as an S

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Corporation pursuant to an election validly made under Subchapter S of the Code and any applicable state statute (which election has not been and will not be revoked or terminated for any such period) and the California Corporation has not been and will not be subject to Federal corporate taxes for such periods.

The Subchapter S election of the California Corporation will be terminated on the Termination Date, and the Company will be subject to federal corporate income taxes from and after the date of such termination but not for any prior period. In connection with the termination, income and loss of the California Corporation for the S termination year will not be allocated pro rata under Section 1362(e) of the Code.

(xxx) The Final 1998 Distribution and the Final Tax Distribution (as such terms are defined in the Prospectus) are legal and valid under Section 170 of the Delaware General Corporation Law and, to the extent applicable, Section 500 of the California General Corporation Law.

(b) Each of the Selling Stockholders severally represents and warrants as follows:

(i) Such Selling Stockholder now has and at the Option Closing Date (as such date is hereinafter defined) will have good and marketable title to the Firm Shares and the Option Shares to be sold by such Selling Stockholder, free and clear of any liens, encumbrances, equities and claims, and full right, power and authority to effect the sale and delivery of such Firm Shares and Option Shares; and upon the delivery of, against payment for, such Firm Shares and Option Shares pursuant to this Agreement, the Underwriters will acquire good and marketable title thereto, free and clear of any liens, encumbrances, equities and claims.

(ii) This Agreement has been duly authorized, executed and delivered by such Selling Stockholder and constitutes a valid and binding obligation of such Selling Stockholder enforceable in accordance with its terms except as rights to indemnity and contribution hereunder may be limited as a matter of applicable public policy or by applicable laws and except as the enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting creditors' rights generally, or by general equitable principles. Such Selling Stockholder has full right, power and authority to execute and deliver this Agreement, the Power of Attorney and the Custody Agreement referred to below and to perform its obligations under such Agreements. The execution and delivery of this Agreement and the consummation by such Selling Stockholder of the transactions herein contemplated and the fulfillment by such Selling Stockholder of the terms hereof will not require any consent, approval, authorization, or other order of any court, regulatory body, administrative agency or other governmental body (except as may be required under the Act, state securities laws or Blue Sky laws) and will not result in a breach of any of the terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which such Selling Stockholder is a party, or of any order, rule or regulation applicable to such Selling Stockholder of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction the effect of which would prevent consummation of the transactions contemplated hereby.

(iii) Such Selling Stockholder has not taken and will not take, directly or indirectly, any action designed to, or which has constituted, or which might reasonably be expected to cause or result in the stabilization or manipulation of the price of the Common Stock of the Company and, other than as permitted by the Act, such Selling Stockholder will not distribute any prospectus or other offering material in connection with the offering of the Shares.

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(iv) Such Management Selling Stockholder is familiar with the Registration Statement and has no knowledge of any material fact, condition or information not disclosed in the Registration Statement which has materially adversely affected or may materially adversely affect the business of the Company or the Subsidiary; and the sale of the Firm Shares and the Option Shares by such Management Selling Stockholder pursuant hereto is not prompted by any information concerning the Company or the Subsidiary which is not set forth in the Registration Statement. The information pertaining to such Selling Stockholder under the caption "Principal Stockholders" in the Prospectus is complete and accurate in all material respects.

(v) The information pertaining to such Selling

Stockholder under the caption "Principal and Selling Stockholders" in the Prospectus is complete and accurate in all material respects.

2. PURCHASE, SALE AND DELIVERY OF THE FIRM SHARES.

(a) On the basis of the representations, warranties and covenants herein contained, and subject to the conditions herein set forth, the Sellers agree to sell to the Underwriters and each Underwriter agrees, severally and not jointly, to purchase, at a price of \$ _____ [net price] per share, the number of Firm Shares set forth opposite the name of each Underwriter in Schedule I hereof, subject to adjustments in accordance with Section 9 hereof. The number of Firm Shares to be purchased by each Underwriter from each Seller shall be as nearly as practicable in the same proportion to the total number of Firm Shares being sold by each Seller as the number of Firm Shares being purchased by each Underwriter bears to the total number of Firm Shares to be sold hereunder. The obligations of the Company and of each of the Selling Stockholders shall be several and not joint.

(b) Payment for the Firm Shares to be sold hereunder is to be made in Federal (same day) funds to an account designated by the Company for the shares to be sold by it and to accounts designated by the Selling Stockholders for the shares to be sold by the Selling Stockholders, in each case against delivery of certificates therefor to the Representatives for the several accounts of the Underwriters. Such payment and delivery are to be made through the facilities of the Depository Trust Company at 10:00 a.m., New York time, on the third business day after the date of this Agreement or at such other time and date not later than five business days thereafter as you and the Company shall agree upon, such time and date being herein referred to as the "CLOSING DATE." (As used herein, "BUSINESS DAY" means a day on which the New York Stock Exchange is open for trading and on which banks in New York are open for business and not permitted by law or executive order to be closed.) The certificates for the Firm Shares will be delivered in such denominations and in such registrations as the Representatives request in writing not later than the second full business day prior to the Closing Date, and will be made available for inspection by the Representatives at least one business day prior to the Closing Date.

(c) In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Principal Selling Stockholder hereby grants an option to the several Underwriters to purchase the Option Shares at the price per share as set forth in the first paragraph of this Section 2. The option granted hereby may be exercised in whole or in part by giving written notice (i) at any time before the Closing Date and (ii) only once thereafter within 30 days after the date of this Agreement, by you, as Representatives of the several Underwriters, to the Attorney-in-Fact and the Custodian setting forth the number of Option Shares as to which the several Underwriters are exercising

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the option, the names and denominations in which the Option Shares are to be registered and the time and date at which such certificates are to be delivered. The time and date at which certificates for Option Shares are to be delivered shall be determined by the Representatives but shall not be earlier than three nor later than 10 full business days after the exercise of such option, nor in any event prior to the Closing Date (such time and date being herein referred to as the "OPTION CLOSING DATE"). If the date of exercise of the option is three or more days before the Closing Date, the notice of exercise shall set the Closing Date as the Option Closing Date. The number of Option Shares to be purchased by each Underwriter shall be in the same proportion to the total number of Option Shares being purchased as the number of Firm Shares being purchased by such Underwriter bears to the total number of Firm Shares, adjusted by you in such manner as to avoid fractional shares. The option with respect to the Option Shares granted hereunder may be exercised only to cover over-allotments in the sale of the Firm Shares by the Underwriters. You, as Representatives of the several Underwriters, may cancel such option at any time prior to its expiration by giving written notice of such cancellation to either of the Attorneys-in-Fact. To the extent, if any, that the option is exercised, payment for the Option Shares shall be made on the Option Closing Date in Federal (same day) funds drawn to the order of "Robert M. Greenberg and M. Susan Greenberg as

Trustees of the Greenberg Family Trust" against delivery of certificates therefor through the facilities of the Depository Trust Company, New York, New York.

(d) Certificates in negotiable form for the total number of the Shares to be sold hereunder by the Selling Stockholders have been placed in custody with American Stock Transfer and Trust Company as custodian (the "CUSTODIAN") pursuant to the Custody Agreement executed by each Selling Stockholder for delivery of all Firm Shares and Option Shares to be sold hereunder by the Selling Stockholders. Each of the Selling Stockholders specifically agrees that the Firm Shares and Option Shares represented by the certificates held in custody for the Selling Stockholders under the Custody Agreement are subject to the interests of the Underwriters hereunder, that the arrangements made by the Selling Stockholders for such custody are to that extent irrevocable, and that the obligations of the Selling Stockholders hereunder shall not be terminable by any act or deed of the Selling Stockholders (or by any other person, firm or corporation including the Company, the Custodian or the Underwriters) or by operation of law (including the death of an individual Selling Shareholder or the dissolution or other termination of a Selling Stockholder that is a trust) or by the occurrence of any other event or events, except as set forth in the Custody Agreement. If any such event should occur prior to the delivery to the Underwriters of the Firm Shares or the Option Shares hereunder, certificates for the Firm Shares or the Option Shares shall be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such event has not occurred. The Custodian is authorized to receive and acknowledge receipt of the proceeds of sale of the Shares held by it against delivery of such Shares.

(e) If on the Closing Date or Option Closing Date, as the case may be, any Selling Stockholder fails to sell the Firm Shares or Option Shares which such Selling Stockholder has agreed to sell on such date as set forth in Schedule II hereto, the Company agrees that it will sell or arrange for the sale of that number of shares of Class A Common Stock to the Underwriters which represents the Firm Shares or Option Shares which such Selling Stockholder has failed to so sell, as set forth in Schedule II hereto, or such lesser number as may be requested by the Representatives.

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3. OFFERING BY THE UNDERWRITERS.

It is understood that the several Underwriters are to make a public offering of the Firm Shares as soon as the Representatives deem it advisable to do so. The Firm Shares are to be initially offered to the public at the initial public offering price set forth in the Prospectus. The Representatives may from time to time thereafter change the public offering price and other selling terms. To the extent, if at all, that any Option Shares are purchased pursuant to Section 2 hereof, the Underwriters will offer them to the public on the foregoing terms.

It is further understood that you will act as the Representatives for the Underwriters in the offering and sale of the Shares in accordance with a Master Agreement Among Underwriters entered into by you and the several other Underwriters.

4. COVENANTS OF THE COMPANY AND THE SELLING STOCKHOLDERS.

(a) The Company covenants and agrees with the several Underwriters that:

(i) The Company will (A) use its best efforts to cause the Registration Statement to become effective or, if the procedure in Rule 430A of the Rules and Regulations is followed, to prepare and timely file with the Commission under Rule 424(b) of the Rules and Regulations a Prospectus in a form approved by the Representatives containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A of the Rules and Regulations and (B) not file any amendment to the Registration Statement or supplement to the Prospectus of which the Representatives shall not previously have been advised and furnished with a copy or to which the Representatives shall have reasonably objected in writing or which is not in compliance with the Rules and Regulations and (C) file on a timely basis all

reports and any definitive proxy or information statements required to be filed by the Company with the Commission subsequent to the date of the Prospectus and prior to the termination of the offering of the Shares by the Underwriters.

(ii) The Company will advise the Representatives promptly (A) when the Registration Statement or any post-effective amendment thereto shall have become effective, (B) of receipt of any comments from the Commission, (C) of any request of the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, and (D) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the use of the Prospectus or of the institution of any proceedings for that purpose. The Company will use its best efforts to prevent the issuance of any such stop order preventing or suspending the use of the Prospectus and to obtain as soon as possible the lifting thereof, if issued.

(iii) The Company will cooperate with the Representatives in endeavoring to qualify the Shares for sale under the securities laws of such jurisdictions as the Representatives may reasonably have designated in writing and will make such applications, file such documents, and furnish such information as may be reasonably required for that purpose, provided the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction where it is not now so qualified or required to file such a consent. The Company will, from time to time, prepare and file such statements, reports, and other documents, as are or may be required to

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continue such qualifications in effect for so long a period as the Representatives may reasonably request for distribution of the Shares.

(iv) The Company will deliver to, or upon the order of, the Representatives, from time to time, as many copies of any Preliminary Prospectus as the Representatives may reasonably request. The Company will deliver to, or upon the order of, the Representatives during the period when delivery of a Prospectus is required under the Act, as many copies of the Prospectus in final form, or as thereafter amended or supplemented, as the Representatives may reasonably request. The Company will deliver to the Representatives at or before the Closing Date, four signed copies of the Registration Statement and all amendments thereto including all exhibits filed therewith, and will deliver to the Representatives such number of copies of the Registration Statement (including such number of copies of the exhibits filed therewith that may reasonably be requested), and of all amendments thereto, as the Representatives may reasonably request.

(v) The Company will comply with the Act and the Rules and Regulations, and the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), and the rules and regulations of the Commission thereunder, so as to permit the completion of the distribution of the Shares as contemplated in this Agreement and the Prospectus. If during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, any event shall occur as a result of which, in the judgment of the Company or in the reasonable opinion of the Underwriters, it becomes necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances existing at the time the Prospectus is delivered to a purchaser, not misleading, or, if it is necessary at any time to amend or supplement the Prospectus to comply with any law, the Company promptly will prepare and file with the Commission an appropriate amendment to the Registration Statement or supplement to the Prospectus so that the Prospectus as so amended or supplemented will not, in the light of the circumstances when it is so delivered, be misleading, or so that the Prospectus will comply with the law.

(vi) The Company will make generally available to its security holders, as soon as it is practicable to do so, but in any event not later than 15 months after the effective date of the Registration Statement, an earning statement (which need not be audited) in reasonable detail, covering a period of at least 12 consecutive months beginning after the effective date of the Registration Statement, which earning statement shall satisfy the requirements of Section 11(a) of the Act and Rule 158 of the Rules and Regulations and will advise you in writing when such statement has been so made

available.

(vii) Prior to the Closing Date, the Company will furnish to the Underwriters, as soon as they have been prepared by or are available to the Company, a copy of any unaudited interim financial statements of the Company for any period subsequent to the period covered by the most recent financial statements appearing in the Registration Statement and the Prospectus.

(viii) No 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) will be made for a period of 180 days after the date of this Agreement, directly or indirectly, by the Company otherwise than hereunder or with the prior written consent of BT Alex. Brown Incorporated, except for the grant of options to purchase shares of Common Stock pursuant to the 1998 Stock Option, Deferred Stock and Restricted Stock Plan and shares of Common Stock issued pursuant to the exercise of options granted under such plan and the grant of

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purchase rights and issuance of shares under the 1998 Employee Stock 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.

(ix) The Company will list, subject to notice of issuance, the Shares on the New York Stock Exchange.

(x) The Company has caused each officer, director, stockholder and optionholder of the Company to furnish to you, on or prior to the date of this agreement, a letter or letters, in form and substance satisfactory to the Underwriters, pursuant to which each such person agrees, subject to certain limited exceptions set forth therein, not to 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 the Prospectus and continuing to a date 180 days after such date, except with the prior written consent of BT Alex. Brown Incorporated ("LOCKUP AGREEMENTS").

(xi) The Company has caused each stockholder of the Company to enter into, on or prior to the date of this agreement, an S Corporation Termination, Tax Allocation and Indemnification Agreement substantially in the form filed as an exhibit to the Registration Statement (the "S CORPORATION AGREEMENT").

(xii) The Company shall apply the net proceeds of its sale of the Shares as set forth in the Prospectus and shall include such disclosure in reports with the Commission with respect to the sale of the Shares and the application of the proceeds therefrom as may be required in accordance with Rule 463 under the Act.

(xiii) The Company shall not invest, or otherwise use the proceeds received by the Company from its sale of the Shares in such a manner as would require the Company or the Subsidiary to register as an investment company under the 1940 Act.

(xiv) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar for the Class A Common Stock.

(xv) The Company will not take, directly or indirectly, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, the stabilization or manipulation of the price of any securities of the Company.

(b) Each of the Selling Stockholders covenants and agrees with the several Underwriters that:

(i) The Selling Stockholder will not 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

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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 the Prospectus and continuing to a date 180 days after such date, otherwise than hereunder or with the prior written consent of Alex. Brown & Sons Incorporated; provided, however, that such restrictions shall not apply to the Shares; and, provided, further, that such restrictions shall not apply to shares of Class A Common Stock purchased by the Selling Stockholder in the open market following the offering of the Shares.

(ii) In order to document the Underwriters' compliance with the reporting and withholding provisions of the Tax Equity and Fiscal Responsibility Act of 1982 and the Interest and Dividend Tax Compliance Act of 1983 with respect to the transactions herein contemplated, the Selling Stockholder agrees to deliver to you prior to or at the Closing Date a properly completed and executed United States Treasury Department Form W-8 or W-9 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof).

(iii) The Selling Stockholder will not take, directly or indirectly, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, the stabilization or manipulation of the price of any securities of the Company.

5. COSTS AND EXPENSES.

The Company will pay all costs, expenses and fees incident to the performance of the obligations of the Sellers under this Agreement, including, without limiting the generality of the foregoing, the following: accounting fees of the Company; the fees and disbursements of counsel for the Company and the Selling Stockholders; the cost of printing and delivering to, or as requested by, the Underwriters copies of the Registration Statement, Preliminary Prospectuses, the Prospectus, this Agreement, the Underwriters' Selling Memorandum, the Underwriters' Invitation Letter, the Listing Application, the Blue Sky Survey and any supplements thereto; the filing fees of the Commission; the filing fees and expenses (including legal fees and disbursements) incident to securing any required review by the NASD of the terms of the sale of the Shares; the Listing Fee of the New York Stock Exchange; and the expenses, including the fees and disbursements of counsel for the Underwriters, incurred in connection with the qualification of the Shares under state securities or Blue Sky laws. To the extent, if at all, that any of the Selling Stockholders engage special legal counsel to represent it in connection with this offering, the fees and expenses of such counsel shall be borne by such Selling Stockholder. Any transfer taxes imposed on the sale of the Shares to the several Underwriters will be paid by the Sellers pro rata. The Company agrees to pay all costs and expenses of the Underwriters, including the fees and disbursements of counsel for the Underwriters, incident to the offer and sale of directed shares of the Class A Common Stock by the Underwriters to employees and persons having business relationships with the Company and the Subsidiary. The Sellers shall not, however, be required to pay for any of the Underwriters expenses (other than those related to qualification under NASD regulation and state securities or Blue Sky laws) except that, if this Agreement shall not be consummated because the conditions in Section 6 hereof are not satisfied, or because this Agreement is terminated by the Representatives pursuant to Section 11 hereof, or by reason of any failure, refusal or inability on the part of the Company or the Selling Stockholders to perform any undertaking or satisfy any condition of this Agreement or to comply with any of the terms hereof on their part to be performed, unless such failure to satisfy said condition or to comply with said terms is due to the default or omission of any Underwriter, then the Company shall reimburse the several Underwriters for

reasonable out-of-pocket expenses, including fees and disbursements of counsel, reasonably incurred in connection with investigating, marketing and proposing to market the Shares or in contemplation of performing their obligations hereunder; but the Company and the Selling Stockholders shall not in any event be liable to any of the several Underwriters for damages on account of loss of anticipated profits from the sale by them of the Shares.

6. CONDITIONS OF OBLIGATIONS OF THE UNDERWRITERS.

The several obligations of the Underwriters to purchase the Firm Shares on the Closing Date and the Option Shares, if any, on the Option Closing Date are subject to the accuracy, as of the Closing Date or the Option Closing Date, as the case may be, of the representations and warranties of the Company and the Selling Stockholders contained herein, and to the performance by the Company and the Selling Stockholders of their covenants and obligations hereunder and to the following additional conditions:

(a) The Registration Statement and all post-effective amendments thereto shall have become effective and any and all filings required by Rule 424 and Rule 430A of the Rules and Regulations shall have been made, and any request of the Commission for additional information (to be included in the Registration Statement or otherwise) shall have been disclosed to the Representatives and complied with to their reasonable satisfaction. No stop order suspending the effectiveness of the Registration Statement, as amended from time to time, shall have been issued and no proceedings for that purpose shall have been taken or, to the knowledge of the Company or the Selling Stockholders, shall be contemplated by the Commission and no injunction, restraining order, or order of any nature by a Federal or state court of competent jurisdiction shall have been issued as of the Closing Date which would prevent the issuance of the Shares.

(b) The Representatives shall have received on the Closing Date or the Option Closing Date, as the case may be, the opinion of Freshman, Marantz, Orlanski, Cooper & Klein ("FMOCK"), counsel for the Company and the Selling Stockholders, dated the Closing Date or the Option Closing Date, as the case may be, addressed to the Underwriters (and stating that it may be relied upon by counsel to the Underwriters) to the effect that:

(i) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement; the Subsidiary has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, with corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement; the Company and the Subsidiary are duly qualified to transact business in all jurisdictions in which the conduct of their business requires such qualification, except where the failure to be so qualified would not have a materially adverse effect upon the business of the Company and the Subsidiary taken as a whole; and the outstanding shares of capital stock of the Subsidiary have been duly authorized and validly issued and are fully paid and non-assessable and are owned by the Company; and, to the best of such counsel's knowledge, the outstanding shares of capital stock of the Subsidiary are owned free and clear of all liens, encumbrances and equities and claims, and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to

convert any obligations into any shares of capital stock or of ownership interests in the Subsidiary are outstanding.

(ii) To such counsel's knowledge, except for the Subsidiary, the Company does not own or control, directly or indirectly, any corporation, association or other entity;

(iii) The Company has authorized and outstanding capital stock as set forth under the caption "Capitalization" in the Prospectus; the

authorized shares of the Company's Common Stock have been duly authorized; the outstanding shares of the Company's Common Stock, including the Shares to be sold by the Selling Stockholders, have been duly authorized and validly issued and are fully paid and non-assessable; all of the Shares conform to the description thereof contained in the Prospectus; the certificates for the Shares, assuming they are in the form filed with the Commission, are in due and proper form; the shares of Common Stock, including the Option Shares, if any, to be sold by the Company pursuant to this Agreement have been duly authorized and will be validly issued, fully paid and non-assessable when issued and paid for as contemplated by this Agreement; and no preemptive rights of stockholders arising under the Company's Certificate of Incorporation or, to such counsel's knowledge, otherwise exist with respect to any of the Shares or the issue or sale thereof.

(iv) Except as described in or contemplated by the Prospectus, to the knowledge of such counsel, there are no outstanding securities of the Company convertible or exchangeable into or evidencing the right to purchase or subscribe for any shares of capital stock of the Company and there are no outstanding or authorized options, warrants or rights of any character obligating the Company to issue any shares of its capital stock or any securities convertible or exchangeable into or evidencing the right to purchase or subscribe for any shares of such stock; and except as described in the Prospectus, to the knowledge of such counsel, no holder of any securities of the Company or any other person has the right, contractual or otherwise, which has not been satisfied or effectively waived, to cause the Company to sell or otherwise issue to them, or to permit them to underwrite the sale of, any of the Shares or the right to have any Common Stock or other securities of the Company included in the Registration Statement or the right, as a result of the filing of the Registration Statement, to require registration under the Act of any shares of Common Stock or other securities of the Company.

(v) The Registration Statement has become effective under the Act and, to such counsel's knowledge, no stop order proceedings with respect thereto have been instituted or are pending or threatened under the Act.

(vi) The Registration Statement, the Prospectus and each amendment or supplement thereto comply as to form in all material respects with the requirements of the Act and the applicable rules and regulations thereunder (except that such counsel need express no opinion as to the financial statements and related schedules therein).

(vii) The statements (A) in the Prospectus under the captions "Risk Factors--Anti-Takeover Provisions," "Risk Factors--Shares Eligible for Future Sale," "Management," "Certain Transactions," "Description of Capital Stock" and "Shares Eligible for Future Sale; Registration Rights" and (B) in the Registration Statement in Items 14 and 15, in each case insofar as such statements constitute a summary of documents referred to therein or matters of law, fairly summarize in all material respects the information called for with respect to such documents and matters.

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(viii) Such counsel does not know of any contracts or documents required to be filed as exhibits to the Registration Statement or described in the Registration Statement or the Prospectus which are not so filed or described as required, and such contracts and documents as are summarized in the Registration Statement or the Prospectus are fairly summarized in all material respects.

(ix) Such counsel knows of no legal or governmental proceedings pending or threatened against the Company or the Subsidiary, except as set forth in the Prospectus, which, if determined adversely to the Company would have a material adverse effect on the business of the Company.

(x) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated do not and will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under any agreement or instrument known to such counsel to which the Company or the Subsidiary is a party or by which the Company or the Subsidiary may be bound, which default would have a material adverse effect on the business of the Company and the Subsidiary, taken as a whole, or affect the

ability of the Company to consummate the transactions contemplated hereby or under the Certificate of Incorporation or Bylaws of the Company.

(xi) This Agreement has been duly authorized, executed and delivered by the Company.

(xii) No approval, consent, order, authorization, designation, declaration or filing by or with any regulatory, administrative or other governmental body is necessary in connection with the execution and delivery of this Agreement and the consummation of the transactions herein contemplated (other than as may be required by the NASD or as required by state securities and Blue Sky laws as to which such counsel need express no opinion) except such as have been obtained or made, specifying the same.

(xiii) The Company is not, and will not become, as a result of the consummation of the transactions contemplated by this Agreement, and application of the net proceeds therefrom as described in the Prospectus, required to register as an investment company under the 1940 Act.

(xiv) Each of this Agreement, the Power of Attorney and the Custody Agreement has been duly authorized, executed and delivered on behalf of the Selling Stockholders.

(xv) Each Selling Stockholder has full legal right, power and authority, and any approval required by law (other than as required by state securities and Blue Sky laws as to which such counsel need express no opinion), to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder.

(xvi) The Custody Agreement and the Power of Attorney executed and delivered by the Selling Stockholders is valid and binding.

(xvii) To our knowledge, the Underwriters (assuming that they are bona fide purchasers within the meaning of the Uniform Commercial Code) have acquired good and marketable title

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to the Shares being sold by the Selling Stockholders on the Closing Date, and the Option Closing Date, as the case may be, free and clear of all liens, encumbrances, equities and claims.

In rendering such opinion FMOCK may rely as to matters governed by the laws of states other than Delaware or Federal laws on local counsel in such jurisdictions, provided that in each case FMOCK shall state that they believe that they and the Underwriters are justified in relying on such other counsel. In addition to the matters set forth above, such opinion shall also include a statement to the effect that nothing has come to the attention of such counsel which leads them to believe that (i) the Registration Statement, at the time it became effective under the Act (but after giving effect to any modifications incorporated therein pursuant to Rule 430A under the Act) and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the Prospectus, or any supplement thereto, on the date it was filed pursuant to the Rules and Regulations and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading (except that such counsel need express no view as to financial statements, schedules and statistical information therein). With respect to such statement, FMOCK may state that their belief is based upon the procedures set forth therein, but is without independent check and verification.

(c) The Representatives shall have received on the Closing Date or the Option Closing Date, as the case may be, the opinion of Kleinberg & Lerner, special intellectual property counsel for the Company, dated the Closing Date or the Option Closing Date, as the case may be, addressed to the Underwriters (and stating that it may be relied upon by counsel to the Underwriters) to the effect that:

(i) the Company is listed in the records of the United States Patent and Trademark Office ("PTO") as the holder of record of the registered trademarks consisting of "SKECHERS" and the "S in Shield design" (collectively, the "TRADEMARKS"). To such counsel's knowledge, there is no claim of any party other than the Company to any ownership interest or lien with respect to any of the Trademarks. As of March 31, 1999, to the best of such counsel's knowledge based on information provided by local counsel, the Company has a valid registered trademark or trademark application relating to the Trademarks in each of the foreign jurisdictions listed on Exhibit A;

(ii) the statements in the Prospectus under the captions "Risk Factors--Ability to Protect Intellectual Property," and "Business--Intellectual Property Rights" (the "INTELLECTUAL PROPERTY PORTIONS"), to our knowledge, insofar as such statements relate to trademarks, patents, intellectual property or any legal matters, documents and proceedings relating thereto fairly present the information called for with respect to such legal matters, documents and proceedings and fairly summarize the matters referred to therein.

(iii) to such counsel's knowledge, except as set forth in the Prospectus or otherwise disclosed to the Underwriters in writing, there is not pending or threatened in writing any action, suit, proceeding or claim by others (A) challenging the validity or scope of the Trademarks or any other material trademarks, trademark applications or domain names held by or licensed to the Company, or (B) , asserting that any trademark is infringed by the activities of the Company described in the Prospectus or by

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the manufacture, use, sale, promotion or advertising of any of the Company's products or use of its domain names.

(iv) to such counsel's knowledge, except as set forth in the Prospectus or otherwise disclosed to the Underwriters in writing, there is not pending or threatened in writing any action, suit, proceeding or claim by the Company asserting infringement on the part of any third party of the Trademarks or any other trademarks, domain names, trade names or advertising slogans held by or licensed to the Company that are material to the business of the Company.

(d) The Representatives shall have received from Wilson Sonsini Goodrich & Rosati, Professional Corporation ("WSGR"), counsel for the Underwriters, an opinion dated the Closing Date or the Option Closing Date, as the case may be, substantially to the effect specified in subparagraphs (ii) (as to matters relating to the shares only), (iv) and (ix) of Paragraph (b) of this Section 6, and that the Company is a duly organized and validly existing corporation under the laws of the State of Delaware. In rendering such opinion WSGR may rely as to all matters governed other than by the laws of the State of Delaware or Federal laws on the opinion of counsel referred to in Paragraph (b) of this Section 6. In addition to the matters set forth above, such opinion shall also include a statement to the effect that nothing has come to the attention of such counsel which leads them to believe that (i) the Registration Statement, or any amendment thereto, as of the time it became effective under the Act (but after giving effect to any modifications incorporated therein pursuant to Rule 430A under the Act) as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) the Prospectus, or any supplement thereto, on the date it was filed pursuant to the Rules and Regulations and as of the Closing Date or the Option Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact, necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading (except that such counsel need express no view as to financial statements, schedules and statistical information therein). With respect to such statement, WSGR may state that their belief is based upon the procedures set forth therein, but is without independent check and verification.

(e) You shall have received, on each of the dates hereof, the Closing Date and the Option Closing Date, as the case may be, a letter dated the date hereof, the Closing Date or the Option Closing Date, as the case may be, in

form and substance satisfactory to you, of KPMG LLP confirming that they are independent public accountants within the meaning of the Act and the applicable published Rules and Regulations thereunder and stating that in their opinion the financial statements and schedules examined by them and included in the Registration Statement comply in form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations; and containing such other statements and information as is ordinarily included in accountants' "comfort letters" to Underwriters with respect to the financial statements and certain financial and statistical information contained in the Registration Statement and Prospectus.

(f) The Representatives shall have received on the Closing Date or the Option Closing Date, as the case may be, a certificate or certificates of the Chief Executive Officer and the Chief Financial Officer of the Company, signing on behalf of the Company, to the effect that, as of the Closing Date or the Option Closing Date, as the case may be, each of them severally represents as follows:

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(i) The Registration Statement has become effective under the Act and no stop order suspending the effectiveness of the Registration Statement has been issued, and no proceedings for such purpose have been taken or are, to the Company's knowledge, contemplated by the Commission;

(ii) The representations and warranties of the Company contained in Section 1 hereof are true and correct as of the Closing Date or the Option Closing Date, as the case may be;

(iii) All filings required to have been made pursuant to Rules 424 or 430A under the Act have been made;

(iv) As of the effective date of the Registration Statement, the statements contained in the Registration Statement were true and correct, and such Registration Statement and Prospectus did not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, and since the effective date of the Registration Statement, no event has occurred which should have been set forth in a supplement to or an amendment of the Prospectus which has not been so set forth in such supplement or amendment; and

(v) Since the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the condition, financial or otherwise, of the Company and the Subsidiary taken as a whole or the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company and the Subsidiary taken as a whole, whether or not arising in the ordinary course of business.

(g) The Firm Shares and Option Shares, if any, shall have been listed subject to notice of issuance on the New York Stock Exchange.

(h) The Underwriters shall have received on the Closing Date a certificate, dated the Closing Date and signed by the Selling Stockholders (or by their attorney-in-fact on their behalf), to the effect that the representations and warranties of the Selling Stockholders contained in Section 1 of this Agreement are true and correct as of the Closing Date and that each Selling Shareholder has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or prior to before the Closing Date

(i) The Lockup Agreements described in Section 4(x) shall have been delivered to the Company and shall not have been amended.

(j) The S Corporation Agreement described in Section 4(xi) shall have been delivered to the Company and shall not have been amended.

The opinions and certificates mentioned in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in all material respects satisfactory to the Representatives and to WSGR, counsel for

the Underwriters.

If any of the conditions hereinabove provided for in this Section 6 shall not have been fulfilled when and as required by this Agreement to be fulfilled, the obligations of the Underwriters

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hereunder may be terminated by the Representatives by notifying the Company and the Selling Stockholders of such termination in writing or by telegram at or prior to the Closing Date or the Option Closing Date, as the case may be.

In such event, the Selling Stockholders, the Company and the Underwriters shall not be under any obligation to each other (except to the extent provided in Sections 5 and 8 hereof).

7 CONDITIONS OF THE OBLIGATIONS OF THE SELLERS.

The obligations of the Sellers to sell and deliver the portion of the Shares required to be delivered as and when specified in this Agreement are subject to the conditions that at the Closing Date or the Option Closing Date, as the case may be, no stop order suspending the effectiveness of the Registration Statement shall have been issued and in effect or proceedings therefor initiated or threatened.

8 INDEMNIFICATION.

(a) The Company agrees:

(1) to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of the Act, against any losses, claims, damages or liabilities to which such Underwriter or any such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading any act or failure to act, or (iii) any alleged act or failure to act by any Underwriter in connection with, or relating in any manner to, the Shares or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon matters covered by clause (i) or (ii) above (provided, that the Company shall not be liable under this clause (iii) to the extent that it is determined in a final judgment by a court of competent jurisdiction that such loss, claim, damage, liability or action resulted directly from any such acts or failures to act undertaken or omitted to be taken by such Underwriter through its gross negligence or willful misconduct); provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement, or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Prospectus, or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives specifically for use in the preparation thereof.

(2) to reimburse each Underwriter and each such controlling person upon demand for any legal or other out-of-pocket expenses reasonably incurred by such Underwriter or such controlling person in connection with investigating or defending any such loss, claim, damage or liability, action or proceeding or in responding to a subpoena or governmental inquiry related to the offering of the Shares, whether or not such Underwriter or controlling person is a party to any action or proceeding. In the event that it is finally judicially determined that the Underwriters were not entitled to receive payments for

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legal and other expenses pursuant to this subparagraph, the Underwriters will promptly return all sums that had been advanced pursuant hereto.

(b) The Selling Stockholders agree to indemnify the Underwriters and each person, if any, who controls any Underwriter within the meaning of the Act, against any losses, claims, damages or liabilities to which such Underwriter or controlling person may become subject under the Act or otherwise to the same extent as indemnity is provided by the Company pursuant to Section 8(a) above. In no event, however, shall the liability of any Selling Stockholder for indemnification under this Section 8(a) exceed sum of (i) the proceeds received by such Selling Stockholder from the Underwriters in the offering and (ii), in the case of the Principal Selling Stockholder, the lesser of (A) the amount received by such Principal Selling Stockholder in repayment of promissory notes issued by the Company, which had an aggregate of \$12.2 million principal amount at December 31, 1998, and (B) \$10.0 million. This indemnity obligation will be in addition to any liability which the Company may otherwise have.

(c) Each Underwriter severally and not jointly will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the Registration Statement, the Selling Stockholders, and each person, if any, who controls the Company or the Selling Stockholders within the meaning of the Act, against any losses, claims, damages or liabilities to which the Company or any such director, officer, Selling Stockholders or controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or (ii) the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made; and will reimburse upon demand any legal or other expenses reasonably incurred by the Company or any such director, officer, Selling Stockholders or controlling person in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; provided, however, that each Underwriter will be liable in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission has been made in the Registration Statement, any Preliminary Prospectus, the Prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives specifically for use in the preparation thereof. This indemnity agreement will be in addition to any liability which such Underwriter may otherwise have.

(d) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to this Section 8, such person (the "INDEMNIFIED PARTY") shall promptly notify the person against whom such indemnity may be sought (the "INDEMNIFYING PARTY") in writing. No indemnification provided for in Section 8(a), (b) or (c) shall be available to any party who shall fail to give notice as provided in this Section 8(d) if the party to whom notice was not given was unaware of the proceeding to which such notice would have related and was materially prejudiced by the failure to give such notice, but the failure to give such notice shall not relieve the indemnifying party or parties from any liability which it or they may have to the indemnified party for contribution or otherwise than on account of the provisions of Section 8(a), (b) or (c). In case any such proceeding shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense

thereof, with counsel satisfactory to such indemnified party and shall pay as incurred the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel at its own expense. Notwithstanding the foregoing, the indemnifying party shall pay as incurred (or within 30 days of presentation) the fees and expenses of the counsel retained by the indemnified party in the event (i) the indemnifying party and the indemnified party shall have mutually agreed to the

retention of such counsel, (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them or (iii) the indemnifying party shall have failed to assume the defense and employ counsel acceptable to the indemnified party within a reasonable period of time after notice of commencement of the action. It is understood that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm for all such indemnified parties. Such firm shall be designated in writing by you in the case of parties indemnified pursuant to Section 8(a) or (b) and by the Company and the Selling Stockholders in the case of parties indemnified pursuant to Section 8(c). The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. In addition, the indemnifying party will not, without the prior written consent of the indemnified party, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding of which indemnification may be sought hereunder (whether or not any indemnified party is an actual or potential party to such claim, action or proceeding) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action or proceeding.

(e) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under Section 8(a), (b) or (c) above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and the Selling Stockholders on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, (or actions or proceedings in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company and the Selling Stockholders bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Selling Stockholders on the one hand or the

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Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(e) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 8(e). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to above in this Section 8(e) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (e), (i) no Underwriter shall be required to contribute any amount in excess of the

underwriting discounts and commissions applicable to the Shares purchased by such Underwriter, (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation, and (iii) the Selling Stockholders shall not be required to contribute any amount in excess of the sum of (x) the proceeds received by such Selling Stockholder from the Underwriters in the offering and (y) in the case of the Principal Selling Stockholder, the lesser of (A) the amount received by such Principal Selling Stockholder in repayment of promissory notes issued by the Company, which had an aggregate of \$12.2 million principal amount at December 31, 1998, and (B) \$10.0 million. The Underwriters' obligations in this Section 8(e) to contribute are several in proportion to their respective underwriting obligations and not joint.

(f) In any proceeding relating to the Registration Statement, any Preliminary Prospectus, the Prospectus or any supplement or amendment thereto, each party against whom contribution may be sought under this Section 8 hereby consents to the jurisdiction of any court having jurisdiction over any other contributing party, agrees that process issuing from such court may be served upon him or it by any other contributing party and consents to the service of such process and agrees that any other contributing party may join him or it as an additional defendant in any such proceeding in which such other contributing party is a party.

(g) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 8 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 8 and the representations and warranties of the Company and the Selling Stockholders set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter, the Company, its directors or officers or any persons controlling the Company, (ii) acceptance of any Shares and payment therefor hereunder, and (iii) any termination of this Agreement. A successor to any Underwriter, or to the Company, its directors or officers, or any person controlling the Company, shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 8.

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9 DEFAULT BY UNDERWRITERS.

If on the Closing Date or the Option Closing Date, as the case may be, any Underwriter shall fail to purchase and pay for the portion of the Shares which such Underwriter has agreed to purchase and pay for on such date (otherwise than by reason of any default on the part of the Company or the Selling Stockholders), you, as Representatives of the Underwriters, shall use your reasonable efforts to procure within 36 hours thereafter one or more of the other Underwriters, or any others, to purchase from the Company and the Selling Stockholders such amounts as may be agreed upon and upon the terms set forth herein, the Firm Shares or Option Shares, as the case may be, which the defaulting Underwriter or Underwriters failed to purchase. If during such 36 hours you, as such Representatives, shall not have procured such other Underwriters, or any others, to purchase the Firm Shares or Option Shares, as the case may be, agreed to be purchased by the defaulting Underwriter or Underwriters, then (a) if the aggregate number of shares with respect to which such default shall occur does not exceed 10% of the Firm Shares or Option Shares, as the case may be, covered hereby, the other Underwriters shall be obligated, severally, in proportion to the respective numbers of Firm Shares or Option Shares, as the case may be, which they are obligated to purchase hereunder, to purchase the Firm Shares or Option Shares, as the case may be, which such defaulting Underwriter or Underwriters failed to purchase, or (b) if the aggregate number of shares of Firm Shares or Option Shares, as the case may be, with respect to which such default shall occur exceeds 10% of the Firm Shares or Option Shares, as the case may be, covered hereby, the Company and the Selling Stockholders or you as the Representatives of the Underwriters will have the right, by written notice given within the next 36-hour period to the parties to this Agreement, to terminate this Agreement without liability on the part of the non-defaulting Underwriters or of the Company or of the Selling Stockholders

except to the extent provided in Section 8 hereof. In the event of a default by any Underwriter or Underwriters, as set forth in this Section 9, the Closing Date or Option Closing Date, as the case may be, may be postponed for such period, not exceeding seven days, as you, as Representatives, may determine in order that the required changes in the Registration Statement or in the Prospectus or in any other documents or arrangements may be effected. The term "Underwriter" includes any person substituted for a defaulting Underwriter. Any action taken under this Section 9 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

10 NOTICES.

All communications hereunder shall be in writing and, except as otherwise provided herein, will be mailed, delivered, telecopied or telegraphed and confirmed as follows: if to the Underwriters, to BT Alex. Brown Incorporated, One South Street, Baltimore, Maryland 21202, Attention: Gregory J. Shaia; with a copy to BT Alex. Brown Incorporated, One Bankers Trust Plaza, 130 Liberty Street, New York, New York 10006, Attention: General Counsel; if to the Company or the Selling Stockholders, to 228 Manhattan Beach Boulevard, Manhattan Beach, California 90266, Attention: Robert Greenberg.

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11 TERMINATION.

(a) This Agreement may be terminated by you by notice to the Sellers at any time prior to the Closing Date if any of the following has occurred: (i) since the respective dates as of which information is given in the Registration Statement and the Prospectus, any material adverse change or any development involving a prospective material adverse change in or affecting the condition, financial or otherwise, of the Company and the Subsidiary taken as a whole or the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company and the Subsidiary taken as a whole, whether or not arising in the ordinary course of business, (ii) any outbreak or escalation of hostilities or declaration of war or national emergency or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, escalation, declaration, emergency, calamity, crisis or change on the financial markets of the United States would, in your reasonable judgment, make it impracticable or inadvisable to market the Shares or to enforce contracts for the sale of the Shares, or (iii) suspension of trading in securities generally on the New York Stock Exchange or the American Stock Exchange or limitation on prices (other than limitations on hours or numbers of days of trading) for securities on either such Exchange, (iv) the enactment, publication, decree or other promulgation of any statute, regulation, rule or order of any court or other governmental authority which in your opinion materially and adversely affects or may materially and adversely affect the business or operations of the Company, (v) declaration of a banking moratorium by United States or New York State authorities, (vi) any downgrading, or placement on any watch list for possible downgrading, in the rating of the Company's debt securities by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) under the Exchange Act); (vii) the suspension of trading of the Company's Class A Common Stock by the New York Stock Exchange, the Commission, or any other governmental authority or, (viii) the taking of any action by any governmental or regulatory body or agency in respect of its monetary or fiscal affairs which in your reasonable opinion has a material adverse effect on the securities markets in the United States; or

(b) as provided in Sections 6 and 9 of this Agreement.

12 SUCCESSORS.

This Agreement has been and is made solely for the benefit of the Underwriters, the Company and the Selling Stockholders and their respective successors, executors, administrators, heirs and assigns, and the officers, directors and controlling persons referred to herein, and no other person will have any right or obligation hereunder. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign merely because of such purchase.

13 INFORMATION PROVIDED BY UNDERWRITERS.

The Company, the Selling Stockholders and the Underwriters acknowledge and agree that the only information furnished or to be furnished by any Underwriter to the Company for inclusion in any Prospectus or the Registration Statement consists of the information set forth in the last paragraph on the front cover page (insofar as such information relates to the Underwriters), legends required by Item 502(d) of Regulation S-K under the Act and the information under the caption "Underwriting" in the Prospectus.

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14 MISCELLANEOUS.

The reimbursement, indemnification and contribution agreements contained in this Agreement and the representations, warranties and covenants in this Agreement shall remain in full force and effect regardless of (a) any termination of this Agreement, (b) any investigation made by or on behalf of any Underwriter or controlling person thereof, or by or on behalf of the Company or its directors or officers and (c) delivery of and payment for the Shares under this Agreement.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of Maryland.

If the foregoing letter is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicates hereof, whereupon it will become a binding agreement among the Selling Stockholders, the Company and the several Underwriters in accordance with its terms.

Any person executing and delivering this Agreement as Attorney-in-Fact for a Selling Stockholder represents by so doing that he has been duly appointed as Attorney-in-Fact by such Selling Stockholder pursuant to a validly existing and binding Power of Attorney which authorizes such Attorney-in-Fact to take such action.

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Very truly yours,

SKECHERS U.S.A., INC.

By: _____
Chief Executive Officer

MANAGEMENT SELLING STOCKHOLDERS

Michael Greenberg

Robert M. Greenberg and M. Susan
Greenberg as Trustees of The
Greenberg Family Trust

Robert M. Greenberg

M. Susan Greenberg

THE SELLING STOCKHOLDERS NAMED IN
SCHEDULE II HERETO, ACTING SEVERALLY

By: _____
Attorney-in-Fact

The foregoing Underwriting Agreement
is hereby confirmed and accepted as of the
date first above written.

BT ALEX. BROWN INCORPORATED
PRUDENTIAL SECURITIES INCORPORATED

As Representatives of the several Underwriters
listed on Schedule I

By: BT Alex. Brown Incorporated

By: _____
Authorized Officer

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SCHEDULE I

SCHEDULE OF UNDERWRITERS

<TABLE>
<CAPTION>

UNDERWRITER -----	NUMBER OF FIRM SHARES TO BE PURCHASED -----
<S> BT Alex. Brown Incorporated.....	<C>
Prudential Securities Incorporated.....	
Total	-----

</TABLE>

SCHEDULE II

SCHEDULE OF SELLING STOCKHOLDERS

<TABLE>
<CAPTION>

SELLING STOCKHOLDER -----	NUMBER OF FIRM SHARES TO BE PURCHASED -----
<S> Robert M. Greenberg and M. Susan Greenberg as trustees of the Greenberg Family Trust.....	<C> 1,361,427
Michael Greenberg	142,857
Jeffrey Greenberg	71,429
Jason Greenberg	71,429
Joshua Greenberg	71,429

Jennifer Greenberg

71,429

Total

1,790,000

</TABLE>

EXHIBIT 10.3

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made and entered into as of the ____ day of June, 1999 (the "Effective Date"), by and between Skechers U.S.A., Inc., a Delaware corporation, hereinafter referred to as "Employer" and Robert Y. Greenberg, hereinafter referred to as "Employee."

The parties contract with reference to the following facts:

A. Employer desires to employ Employee as its Chairman of the Board and Chief Executive Officer and Employee desires to accept employment with Employer in such capacity.

B. The parties are willing to enter into an Agreement providing for such employment upon the terms and conditions hereinafter set forth.

THEREFORE, the parties agree as follows:

1. EMPLOYMENT. Employer hereby agrees to employ, and does hereby employ, Employee and Employee agrees to accept and hereby accepts employment by Employer, on the terms and subject to the conditions set forth in this Agreement.

2. COMPENSATION.

2.1 Salary. Employer shall pay to Employee a gross annual salary, as determined from time to time by the Board of Directors of Employer, provided; however, that in no event shall Employee's salary hereunder be at an annual rate less than Five Hundred Thousand Dollars (\$500,000) ("Salary"). Said Salary to be paid bi-weekly or in accordance with Employer's regular payroll practices.

2.2 Performance-Based Annual Bonus. For each full year during Employee's term as set forth in Section 5, commencing on the Effective Date, Employee shall be eligible to receive a cash bonus based on Employer's achievement of certain financial goals ("Performance-Based Annual Bonus"). For calendar year 1999, and until changed by the Board's Compensation Committee, the annual cash bonus award shall be determined on the basis of Employer's annual return on average equity ("ROE").

(a) if ROE for the calendar year is between 20.0% and 24.9%, the cash bonus shall be equal to 50% of Employee's annual salary for the subject calendar year pursuant to Section 2.1;

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(b) if ROE for the calendar year is at least equal to or greater than 25.0%, the cash bonus shall be equal to 100% of Employee's annual salary for the subject calendar year pursuant to Section 2.1; and

(c) The Performance-Based Annual Bonus payable for any calendar year shall be paid to Employee no later than the 15th day of April of the following year. Nothing herein shall preclude Employee from participating in any equity or equity-based compensation program of Employer and the bonus program set forth in this Section 2.2 herein may be replaced with a different program approved by the Board's Compensation Committee and agreed with by Employee.

2.3 Tax Withholding. Employer shall provide for the withholding of any taxes required to be withheld by Federal, state and local law with respect to any payment in cash, shares of capital stock or other property

made by or on behalf of Employer to or for the benefit of Employee under this Agreement or otherwise. Employer may, at its option: (i) withhold such taxes from any cash payments owing from Employer to Employee, including any payments owing under any other provision of the Agreement, (ii) require Employee to pay to Employer in cash such amount as may be required to satisfy such withholding or (iii) make other satisfactory arrangements with Employee to satisfy such withholding obligations.

3. DUTIES, TIME AND EFFORTS. Employee shall serve as Chairman of the Board and Chief Executive Officer of Employer, as such, shall report to the Board of Directors or any Executive Committee of the Board of Directors of Employer and his duties shall include generally, but without limitation, authority and responsibility for the whole overall supervision of the operations of Employer; and he shall also undertake such other reasonable duties of a similar managerial nature as the Board of Directors or Executive Committee of Employer may at any time, or from time to time, direct him to perform. It is understood that Employee may be required to provide services to other corporations owned by or, affiliated with Employer, without additional compensation. Other than providing services to affiliates, Employee shall devote his full productive time, energies,

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and abilities to the proper and efficient performance of Employer's business pursuant to the employment hereunder. Employee shall at all times during the term hereof be furnished with such office, stenographic and other necessary secretarial assistance, and such other facilities, amenities and services as are suitable to Employee's position as Chief Executive Officer of Employer and adequate for the performance of Employee's duties hereunder. Unless otherwise agreed to by Employee, Employee's offices shall be maintained at the premises of the principal office of the Employer in Manhattan Beach, California; provided, however, that in connection with the performance of his duties and responsibilities, Employee acknowledges that he may be required to undertake significant business traveling. Employee may not, without the prior express authorization of Employer's Board of Directors, directly or indirectly, during the term of this Agreement engage in any activity competitive with Employer's business or practice, whether acting alone, as a partner, or as an officer, director or employee of any other corporation, whether professional or otherwise; provided, however that nothing herein contained shall prevent Employee from purchasing and/or holding less than five percent (5%) of the issued and outstanding stock of a publicly-held corporation which competes with Employer.

4. VACATION. Employee shall be entitled to a paid vacation of four (4) weeks during each twelve (12) month period of the term of this Agreement. The date or dates of said vacation shall be determined by Employee and the Board of Directors of Employer. If for any reason Employee does not take his full four (4) weeks of vacation as provided above, he may carry over a maximum of one (1) week into the following year, but if he does not use the carried over vacation week in that year it shall expire. Therefore, under no circumstances, regardless of Employee's failure to take vacations, would he be entitled to more than five (5) weeks vacation during any twelve (12) month period.

5. TERM. The term of employment shall commence upon the date of this Agreement and terminate on the _____ day of June, 2002 unless sooner terminated upon the happening of any of the following events:

5.1 Upon Mutual Agreement. Whenever Employer and Employee shall otherwise mutually agree to termination.

5.2 Death. Death of Employee.

5.3 Disability. Disability of Employee, either physically or mentally, not arising out of an injury sustained while on Employer's business extending beyond One Hundred and Fifty (150) consecutive days, or totaling more than one hundred eighty (180) days in any period of three hundred sixty-five (365) days (not limited to any calendar or fiscal year). Such determination to be based upon a certificate as to such physical or mental disability employed by Employer.

5.4 Termination for Cause After Notice and Failure to Cure.

Employer may at any time during the term of this Agreement, terminate Employee's employment with Employer for cause ("Cause"), by written notice to Employee by complying with the notice

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requirements and restrictions in Section 5.8. Cause shall be limited to the following reasons:

(a) Conviction of Employee for, or Employee pleads guilty or nolo contendere on, any crime involving a dishonest act or involving any behavior not expected of a Chief Executive Officer of a public corporation, which would make the continuance of his employment by Employer detrimental to Employer.

(b) Knowing and intentional commission of a material dishonest act by Employee in the scope of his employment, including, but not limited to theft, embezzlement, falsification of records, misappropriation of funds or property, or fraud against, or with respect to the business of, Employer or any affiliate, which would make the continuance of his employment by Employer detrimental to Employer.

(c) Persistent malfeasance, misfeasance or non-feasance in connection with the performance of his duties.

(d) Employee commits any act that causes, or knowingly fails to take reasonable and appropriate action to prevent, any material injury to the financial condition or business reputation of Employer or any of its affiliates; however, this shall not apply to (i) any act of Employer or its affiliates by any other employee thereof except to the extent that such act is committed at the direction, or with the knowledge, of Employee or (ii) any action in which Employee acted in good faith and in a manner reasonably to be in or not opposed to the best interests of Employer, as determined by Employer's Board of Directors.

(e) Breach of any material provision of this Agreement.

5.5 Good Reason (by Employee). Employee's employment may be terminated by Employee at any time for any of the following reasons (each of which is referred to herein as "Good Reason") by giving the Employer effective date of such termination (which effective date may be the date of such notice):

(a) Employer commits a breach of any material term of this Agreement and, if such breach is capable of being cured, fails to cure such breach within 15 days of receipt of written notice of such breach; or

(b) Employer removes Employee from the position of Chief Executive Officer of Employer other than for Cause, or Employer effects any diminution of the powers, duties or authority of Employee, in each case, without the prior written consent of the Employee.

5.6 Executive's Rights to Terminate. Employee may, at his option, terminate his employment hereunder for any reason upon 60 days' prior written notice to Employer.

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5.7 Without Cause. Employer may, at its option, terminate Employee's employment without Cause at any time upon written notice to Employee.

5.8 Notice Requirements and Restrictions. Provided however, and by restriction to the right of Employer set forth in Section 5.4, in the event Employer contends that Employee is not performing the services required by

this Agreement or that it has Cause to terminate this Agreement pursuant to Section 5.4 of this Agreement, Employer shall provide Employee with a written notice specifying in reasonable detail the services or matters in which it contends Employee has not been adequately performing and why Employer has Cause to terminate this Agreement, and what Employee should do to adequately perform his obligations hereunder. If Employee performs the required services within fifteen (15) days of receipt of the notice or modified his performance to correct the matters complained of, Employee's breach will be deemed cured and he shall not be terminated; provided, however, if the nature of the service not performed by Employee or the matters complained of are such that more than fifteen (15) days are reasonably required to perform the required service or to correct the matters complained of, then Employee's breach will be deemed cured if Employee commences to perform such service or to correct such matters within said fifteen (15) day period and thereafter diligently prosecutes such performance or correction to completion. If Employee does not perform the required services or modify his performance to correct the matters complained of within said period Employer shall have the right to terminate this Agreement at the end of said fifteen (15) day period. It is understood that Employee's performance hereunder will not be deemed unsatisfactory solely on the basis of any economic performance of Employer, though the Board of Directors of Employer may consider economic performance as a factor. For purpose of this Agreement, the "Date of Termination" shall mean the later of the date that any party gives written notice that it intends to terminate this Agreement pursuant to the terms hereof, or the date, if any, specified by the terminating party in such notice as the effective date of termination.

6. OBLIGATIONS OF THE CORPORATION UPON TERMINATION.

6.1 Cause or Voluntary. If Employee's employment shall be terminated under Sections 5.1, 5.2, 5.4 or 5.6, Employer's obligations to Employee shall terminate, other than the obligation (i) to pay to Employee his Salary through the Date of Termination at the rate in effect on the day preceding the Date of Termination, (ii) any bonus due as of the Date of Termination, and (iii) to continue to provide Employee with benefits of the type described in Section 9 through the Date of Termination.

6.2 Without Cause or for Good Reason. If Employer shall terminate Employee's employment without Cause pursuant to Section 5.7, or if Employee shall terminate his employment for Good Reason pursuant to Section 5.5, Employer shall (i) continue, in accordance with Employer's normal payroll procedures, to pay the Employee his Salary through the Expiration Date of this Agreement, (ii) continue to pay the Employee his Performance - Based Annual Bonus pursuant to Section 2.2 through the Expiration Date of this Agreement at the rate in effect on the day

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preceding the Date of Termination, and (iii) continue to provide the Executive with benefits of the type described in Section 9 through the Expiration Date of this Agreement.

6.3 Disability. During any period of total disability, Employee shall be entitled to his full compensation as provided for hereunder for a period of three (3) months. Thereafter during such period of total disability, Employee shall be entitled to compensation for the balance of the term of this Agreement equal to the Base Salary otherwise payable to the Employee under Section 2.1 hereof, during such period of total disability, less amounts received by the Employee under a policy provided pursuant to Section 9.6.

7. EMPLOYER'S AUTHORITY. To the extent that the following is not inconsistent with the other provisions of this Agreement, Employee agrees to observe and comply with the rules and regulations of Employer as adopted by Employer's Board of Directors respecting performance of this duties and to carry out and perform orders, directions and policies of Employer as they may be, from time to time, stated to him either orally or in writing.

8. EFFECTIVE DATE. The effective date of this Agreement shall be the date of execution as indicated above.

9. EXPENSES AND FRINGE BENEFITS.

9.1 Employer and Employee agree that proper discharge of the duties imposed upon Employee shall require the frequent use of an automobile. Employer hereby agrees that it shall provide to Employee an automobile, chosen by the Employee and suitable for use by the Chief Executive Officer of a public company such as Employer. Such automobile shall be purchased or leased by Employer and provided to Employee for his exclusive use, or at the option of Employee, Employee shall purchase or lease an automobile and the cost thereof shall be reimbursed by Employer. In addition to providing the automobile, Employer shall pay or reimburse all reasonable expenses incurred by Employee in connection with the use and operation of the automobile. Further, should Employee so desire, Employer shall provide a driver for Employee's automobile, during such hours and at such times as may be reasonable for the proper performance of Employee's duties as Chief Executive Officer of a public company.

9.2 Employer and Employee agree that it is necessary and proper for Employee to maintain membership in certain private clubs, civic and fraternal organizations and other associations and that such membership shall be in the best interests of Employer and in furtherance of Employee's obligations hereunder. Employer agrees to pay or reimburse the costs of any such membership in any such clubs, groups or organizations which Employee shall, in his discretion, determine to be in the best interests of the Employee. In the event the cost of any such membership shall exceed One Thousand Dollars (\$1,000.00) per month or shall represent the purchase of an equity interest in such club, group or organization (an "equity membership"), the payment of the cost of such membership shall be subject to the approval of the Board of Directors. Any equity

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membership so approved shall be held in the name of Employee during the term of this Agreement and, upon the termination hereof, Employee shall have the right to retain such equity membership for a payment to Employer in an amount equal to the initial cost thereof.

9.3 Without limiting the generality of the obligations of Employer pursuant to Sections 9.1 and 9.2 Employer shall also pay or reimburse all expenses reasonably incurred by Employee in discharge of Employee's duties hereunder. Such expenses shall include, without limitation, the following:

- (a) Education expenses incurred for the purpose of maintaining or improving Employee's skills;
- (b) Expenses for travel, lodging, and related expenses in connection with conventions or meetings, attendance at which is necessary or appropriate in connection with the performance by Employee of his duties required hereunder;
- (c) Expenses for meals, entertainment and similar items reasonably incurred by Employee in connection with the business of Employer; and
- (d) Such other expenses incurred by Employee reasonably related to the discharge by Employee of his duties as set forth herein.

9.4 Employer reserves the right to require, as a condition of payment or reimbursement for any item pursuant to Section 9.3, Employee to furnish Employer with reasonable documentation evidencing that the expense has been incurred and the relationship of such item to the business of Employer or the duties of Employee.

9.5 Employer shall provide, for the benefit of Employee and his spouse, standard coverage medical insurance, with additional coverage for dental expenses.

9.6 Notwithstanding any provision herein to the contrary, Employer shall provide the Employee all other Employee fringe benefits which are generally provided for or made available to the employees of Employer.

10. CONFIDENTIAL DISCLOSURE. Except to the extent that the proper performance of Employee's duties pursuant to this Agreement may require

disclosure, Employee agrees that he will not for any reason or at any time during the term of this Agreement disclose, communicate or divulge to, or use for the direct or indirect benefit of any person, firm or association or company other than Employer, any secret or confidential information relating to the customer lists, policies, processes, prospects, products, operations or services of Employer or any other secret or confidential information relating to Employer or its affiliates or the products or services and the accounting, marketing, selling, financing and other business methods and techniques of Employer. However,

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confidential information shall not include (A) at the time of disclosure to Employee such information that was in the public domain or later entered the public domain other than as a result of a breach of an obligation herein; or (B) subsequent to disclosure to Employee, Employee received such information from a third party under no obligation to maintain such information in confidence, and the third party came into possession of such information other than as a result of a breach of an obligation herein. All documents, materials or articles of information of any kind furnished to Employee by Employer or developed by Employee in the course of his employment hereunder are and shall remain the sole property of Employer; and if Employer requests the return of such information at any time during, upon or after the termination of Employee's employment hereunder, Employee shall immediately deliver the same to Employer. Employee agrees that the remedy at law for any breach of the foregoing may be inadequate, and that Employer shall be entitled to any type of injunctive relief for any such breach in addition to any other rights or remedies in law or equity to which Employer may be entitled.

11. MISCELLANEOUS.

11.1 Assignability of Agreement. The provisions of this Agreement shall inure to the benefit of the parties hereto, and their respective permitted heirs, legal representatives, successors and assigns. Employer shall require any successor (whether direct or indirect, by purchase, merger, reorganization, consolidation, acquisition of property or stock, liquidation or otherwise) to all or a significant portion of its assets, by agreement in form and substance satisfactory to Employee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that Employer would be required to perform this Agreement if no such succession had taken place. The obligations of Employee under this Agreement shall be personal and not delegable by him in any manner whatsoever.

11.2 Notices. Any notice, request, instruction or other document to be given hereunder by either party hereto to the other shall be in writing and delivered personally or sent by certified or registered mail, postage prepaid, and if mailed to any address in a state other than the state of mailing, by air mail, addressed as follows:

- (a) If to Employee, to:

Robert Y. Greenberg
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266

- (b) If to Employer, to:

Skechers U.S.A., Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266
Attn: David Weinberg, Chief Financial Officer

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Any notice so given shall be deemed received when delivered personally, or (if mailed) when dispatched. Any party may change the address to which notices are to be sent by giving written notice of such change of address to the other party in the manner herein provided for giving notice.

11.3 Waiver. No waiver of any breach of any warranty, representation, covenant or other term or provision of this Agreement shall be deemed to be a waiver of any preceding or succeeding breach of the same or any other warranty, representation, covenant, term or provision. No extension of the time for performance of any obligation or other act shall be deemed to be an extension of the time for the performance of any other obligation of any other act.

11.4 Amendment to Agreement. This Agreement contains the entire agreement between the parties hereto with respect to the transactions contemplated herein, and may not be amended, supplemented or discharged except by an instrument in writing signed by both parties hereto. This Agreement supersedes any and all previous Employment Agreements between the parties which are hereby revoked.

11.5 Disputes/Attorneys Fees. Should any dispute arise concerning the terms or the interpretations of this Agreement, and such dispute results in arbitration and/or litigation then, unless otherwise directed by the court, the prevailing party shall be entitled to and be awarded reasonable attorneys' fees and costs in addition to any other relief to which it may be entitled.

11.6 Time of the Essence. Time is of the essence of each provision of this Agreement in which time is an element.

11.7 Arbitration. The parties agree if any controversy or claim shall arise out of this Agreement or the breach hereof and either party shall request that the matter be settled by arbitration the matter shall be settled exclusively by arbitration in accordance with the rules then in effect of the American Arbitration Association in the City of Los Angeles, California, as the same may be modified by the statutes of California then in effect, by a single arbitrator, if the parties shall agree upon one, or by one arbitrator appointee by each party and a third arbitrator appointed by the other arbitrators. In case of any failure of a party to make an appointment referred to above within two (2) weeks after written notice of controversy, such appointment shall be made by the Association. All arbitration proceedings shall be held in the City of Los Angeles, California, and each party agrees to comply in all respects with any award made in such proceeding and to the entry of a judgment in any jurisdiction upon any award rendered in such proceeding. All costs and expenses of arbitration (including costs of preparation therefor and reasonable attorneys' fees incurred in connection therewith) of the party prevailing in such arbitration shall be borne by the losing party to such arbitration, unless otherwise directed by the arbitrators. Notwithstanding any provision of this section herein set forth, no party may make a request for arbitration hereunder with respect to any matter at any time following

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the expiration of thirty days after notice of the filing of a legal action with respect to such matters in a court of competent jurisdiction.

11.8 Indemnification. Employer agrees to indemnify Employee for any and all liabilities to which he may be subject as a result of his service as an officer, director or other corporate agent of Employer, or of any other enterprise at the request of the Employer, or otherwise as a result of his employment hereunder, as well as the expense (including, without limitation, reasonable counsel fees) of any proceeding brought or threatened against Employee as a result of such service or employment, to the fullest extent permitted by law. Such counsel fees shall, to the fullest extent permitted by law, be paid by Employer in advance of the final disposition of the proceeding upon receipt of an undertaking of Employee satisfactory to counsel for Employer to repay such fees unless it shall ultimately be determined that he is not entitled to be indemnified with respect thereto.

11.9 Execution in Counterparts. This Agreement may be executed by the parties hereto in two counterparts, each of which shall be deemed to be an original, but all such counterparts shall constitute one and the same instrument, and all signatures need not appear on any one counterpart

11.10 Severability. If any provision of this Agreement shall be adjudged by any court of competent jurisdiction to be invalid or unenforceable for any reason, such judgment shall not affect, impair or invalidate the remainder of this Agreement

11.11 Headings Descriptive. The headings of the several paragraphs of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any of this Agreement.

11.12 Governing Law. This Agreement shall be construed in accordance with and be governed by the laws of the State of California.

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IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the Effective Date.

"EMPLOYER"

Skechers, U.S.A., Inc.

By:

Name: Michael Greenberg
Title: President

"EMPLOYEE"

Robert Y. Greenberg

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EXHIBIT 10.4

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made and entered into as of the ____ day of June, 1999 (the "Effective Date"), by and between Skechers U.S.A., Inc., a Delaware corporation, hereinafter referred to as "Employer" and Michael Greenberg hereinafter referred to as "Employee."

The parties contract with reference to the following facts:

A. Employer desires to employ Employee as its President and Employee desires to accept employment with Employer in such capacity.

B. The parties are willing to enter into an Agreement providing for such employment upon the terms and conditions hereinafter set forth.

THEREFORE, the parties agree as follows:

1. EMPLOYMENT. Employer hereby agrees to employ, and does hereby employ, Employee and Employee agrees to accept and hereby accepts employment by Employer, on the terms and subject to the conditions set forth in this Agreement.

2. COMPENSATION.

2.1 Salary. Employer shall pay to Employee a gross annual salary, as determined from time to time by the Board of Directors of Employer, provided; however, that in no event shall Employee's salary hereunder be at an annual rate less than Three Hundred Fifty Thousand Dollars (\$350,000) ("Salary"). Said Salary to be paid bi-weekly or in accordance with Employer's regular payroll practices.

2.2 Performance-Based Annual Bonus. For each full year during Employee's term as set forth in Section 5, commencing on the Effective Date, Employee shall be eligible to receive a cash bonus based on Employer's achievement of certain financial goals ("Performance-Based Annual Bonus"). For calendar year 1999, and until changed by the Board's Compensation Committee, the annual cash bonus award shall be determined on the basis of Employer's annual return on average equity ("ROE").

(a) if ROE for the calendar year is between 20.0% and 24.9%, the cash bonus shall be equal to 50% of Employee's annual salary for the subject calendar year pursuant to Section 2.1;

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(b) if ROE for the calendar year is at least equal to or greater than 25.0%, the cash bonus shall be equal to 100% of Employee's annual salary for the subject calendar year pursuant to Section 2.1; and

(c) The Performance-Based Annual Bonus payable for any calendar year shall be paid to Employee no later than the 15th day of April of the following year. Nothing herein shall preclude Employee from participating in any equity or equity-based compensation program of Employer and the bonus program set forth in this Section 2.2 herein may be replaced with a different program approved by the Board's Compensation Committee and agreed with by Employee.

2.3 Tax Withholding. Employer shall provide for the withholding of any taxes required to be withheld by Federal, state and local law with respect to any payment in cash, shares of capital stock or other property made by or on behalf of Employer to or for the benefit of Employee under this

Agreement or otherwise. Employer may, at its option: (i) withhold such taxes from any cash payments owing from Employer to Employee, including any payments owing under any other provision of the Agreement, (ii) require Employee to pay to Employer in cash such amount as may be required to satisfy such withholding or (iii) make other satisfactory arrangements with Employee to satisfy such withholding obligations.

3. DUTIES, TIME AND EFFORTS. Employee shall serve as President of Employer, as such, shall report to the Board of Directors or any Executive Committee of

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the Board of Directors of Employer and his duties shall include generally, but without limitation, all powers and duties consistent with such position subject to the direction of the Board of Directors or any Executive Committee; and he shall also undertake such other reasonable duties of a similar managerial nature as the Board of Directors or Executive Committee of Employer may at any time, or from time to time, direct him to perform. It is understood that Employee may be required to provide services to other corporations owned by or, affiliated with Employer, without additional compensation. Other than providing services to affiliates, Employee shall devote his full productive time, energies, and abilities to the proper and efficient performance of Employer's business pursuant to the employment hereunder. Employee shall at all times during the term hereof be furnished with such office, stenographic and other necessary secretarial assistance, and such other facilities, amenities and services as are suitable to Employee's position as President of Employer and adequate for the performance of Employee's duties hereunder. Unless otherwise agreed to by Employee, Employee's offices shall be maintained at the premises of the principal office of the Employer in Manhattan Beach, California; provided, however, that in connection with the performance of his duties and responsibilities, Employee acknowledges that he may be required to undertake significant business traveling. Employee may not, without the prior express authorization of Employer's Board of Directors, directly or indirectly, during the term of this Agreement engage in any activity competitive with Employer's business or practice, whether acting alone, as a partner, or as an officer, director or employee of any other corporation, whether professional or otherwise; provided, however that nothing herein contained shall prevent Employee from purchasing and/or holding less than five percent (5%) of the issued and outstanding stock of a publicly-held corporation which competes with Employer.

4. VACATION. Employee shall be entitled to a paid vacation of four (4) weeks during each twelve (12) month period of the term of this Agreement. The date or dates of said vacation shall be determined by Employee and the Board of Directors of Employer. If for any reason Employee does not take his full four (4) weeks of vacation as provided above, he may carry over a maximum of one (1) week into the following year, but if he does not use the carried over vacation week in that year it shall expire. Therefore, under no circumstances, regardless of Employee's failure to take vacations, would he be entitled to more than five (5) weeks vacation during any twelve (12) month period.

5. TERM. The term of employment shall commence upon the date of this Agreement and terminate on the [_____] day of June 2002 unless sooner terminated upon the happening of any of the following events:

5.1 Upon Mutual Agreement. Whenever Employer and Employee shall otherwise mutually agree to termination.

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5.2 Death. Death of Employee.

5.3 Disability. Disability of Employee, either physically or mentally, not arising out of an injury sustained while on Employer's business

extending beyond One Hundred and Fifty (150) consecutive days, or totaling more than one hundred eighty (180) days in any period of three hundred sixty-five (365) days (not limited to any calendar or fiscal year). Such determination to be based upon a certificate as to such physical or mental disability employed by Employer.

5.4 Termination for Cause After Notice and Failure to Cure.

Employer may at any time during the term of this Agreement, terminate Employee's employment with Employer for cause ("Cause"), by written notice to Employee by complying with the notice requirements and restrictions in Section 5.8. Cause shall be limited to the following reasons:

(a) Conviction of Employee for, or Employee pleads guilty or nolo contendere on, any crime involving a dishonest act or involving any behavior not expected of a President of a public corporation, which would make the continuance of his employment by Employer detrimental to Employer.

(b) Knowing and intentional commission of a material dishonest act by Employee in the scope of his employment, including, but not limited to theft, embezzlement, falsification of records, misappropriation of funds or property, or fraud against, or with respect to the business of, Employer or any affiliate, which would make the continuance of his employment by Employer detrimental to Employer.

(c) Persistent malfeasance, misfeasance or non-feasance in connection with the performance of his duties.

(d) Employee commits any act that causes, or knowingly fails to take reasonable and appropriate action to prevent, any material injury to the financial condition or business reputation of Employer or any of its affiliates; however, this shall not apply to (i) any act of Employer or its affiliates by any other employee thereof except to the extent that such act is committed at the direction, or with the knowledge, of Employee or (ii) any action in which Employee acted in good faith and in a manner reasonably to be in or not opposed to the best interests of Employer, as determined by Employer's Board of Directors.

(e) Breach of any material provision of this Agreement.

5.5 Good Reason (by Employee). Employee's employment may be

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terminated by Employee at any time for any of the following reasons (each of which is referred to herein as "Good Reason") by giving the Employer effective date of such termination (which effective date may be the date of such notice):

(a) Employer commits a breach of any material term of this Agreement and, if such breach is capable of being cured, fails to cure such breach within 15 days of receipt of written notice of such breach; or

(b) Employer removes Employee from the position of President of Employer other than for Cause, or Employer effects any diminution of the powers, duties or authority of Employee, in each case, without the prior written consent of the Employee.

5.6 Executive's Rights to Terminate. Employee may, at his option, terminate his employment hereunder for any reason upon 60 days' prior written notice to Employer.

5.7 Without Cause. Employer may, at its option, terminate Employee's employment without Cause at any time upon written notice to Employee.

5.8 Notice Requirements and Restrictions. Provided however, and by restriction to the right of Employer set forth in Section 5.4, in the event Employer contends that Employee is not performing the services required by

this Agreement or that it has Cause to terminate this Agreement pursuant to Section 5.4 of this Agreement, Employer shall provide Employee with a written notice specifying in reasonable detail the services or matters in which it contends Employee has not been adequately performing and why Employer has Cause to terminate this Agreement, and what Employee should do to adequately perform his obligations hereunder. If Employee performs the required services within fifteen (15) days of receipt of the notice or modified his performance to correct the matters complained of, Employee's breach will be deemed cured and he shall not be terminated; provided, however, if the nature of the service not performed by Employee or the matters complained of are such that more than fifteen (15) days are reasonably required to perform the required service or to correct the matters complained of, then Employee's breach will be deemed cured if Employee commences to perform such service or to correct such matters within said fifteen (15) day period and thereafter diligently prosecutes such performance or correction to completion. If Employee does not perform the required services or modify his performance to correct the matters complained of within said period Employer shall have the right to terminate this Agreement at the end of said fifteen (15) day period. It is understood that Employee's performance hereunder will not be deemed unsatisfactory solely on the basis of any economic performance of Employer, though the Board of Directors of Employer may consider economic performance as a factor. For purpose of this Agreement, the "Date of Termination" shall mean the later of

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the date that any party gives written notice that it intends to terminate this Agreement pursuant to the terms hereof, or the date, if any, specified by the terminating party in such notice as the effective date of termination.

6. OBLIGATIONS OF THE CORPORATION UPON TERMINATION.

6.1 Cause or Voluntary. If Employee's employment shall be terminated under Sections 5.1, 5.2, 5.4, or 5.6, Employer's obligations to Employee shall terminate, other than the obligation (i) to pay to Employee his Salary through the Date of Termination at the rate in effect on the day preceding the Date of Termination, (ii) any bonus due as of the Date of Termination, and (iii) to continue to provide Employee with benefits of the type described in Section 9 through the Date of Termination.

6.2 Without Cause or for Good Reason. If Employer shall terminate Employee's employment without Cause pursuant to Section 5.7, or if Employee shall terminate his employment for Good Reason pursuant to Section 5.5, Employer shall (i) continue, in accordance with Employer's normal payroll procedures, to pay the Employee his Salary through the Expiration Date of this Agreement, (ii) continue to pay the Employee his Performance - Based Annual Bonus pursuant to Section 2.2 through the Expiration Date of this Agreement at the rate in effect on the day preceding the Date of Termination, and (iii) continue to provide the Executive with benefits of the type described in Section 9 through the Expiration Date of this Agreement.

6.3 Disability. During any period of total disability, Employee shall be entitled to his full compensation as provided for hereunder for a period of three (3) months. Thereafter during such period of total disability, Employee shall be entitled to compensation for the balance of the term of this Agreement equal to the Base Salary otherwise payable to the Employee under Section 2.1 hereof, during such period of total disability, less amounts received by the Employee under a policy provided pursuant to Section 9.4.

7. EMPLOYER'S AUTHORITY. To the extent that the following is not inconsistent with the other provisions of this Agreement, Employee agrees to observe and comply with the rules and regulations of Employer as adopted by Employer's Board of Directors respecting performance of this duties and to carry out and perform orders, directions and policies of Employer as they may be, from time to time, stated to him either orally or in writing.

8. EFFECTIVE DATE. The effective date of this Agreement shall be the date of execution as indicated above.

9. EXPENSES AND FRINGE BENEFITS.

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9.1 Employer shall also pay or reimburse all expenses reasonably incurred by Employee in discharge or Employee's duties hereunder. Such expenses shall include, without limitation, the following:

- (a) Automobile lease expenses of Employee;
- (b) Education expenses incurred for the purpose of maintaining or improving Employee's skills;
- (c) Expenses for travel, lodging, and related expenses in connection with conventions or meetings, attendance at which is necessary or appropriate in connection with the performance by Employee of his duties required hereunder;
- (d) Expenses for meals, entertainment and similar items reasonably incurred by Employee in connection with the business of Employer; and
- (e) Such other expenses incurred by the Employee reasonably related to the discharge by Employee of his duties as set forth herein.

9.2 Employer reserves the right to require, as a condition of payment or reimbursement for any item pursuant to Section 9.1, Employee to furnish Employer with reasonable documentation evidencing that the expense has been incurred and the relationship of such item to the business of Employer or the duties of Employee.

9.3 Employer shall provide, for the benefit of Employee and his spouse, standard coverage medical insurance, with additional coverage for dental expenses.

9.4 Notwithstanding any provision herein to the contrary, Employer shall provide the Employee all other Employee fringe benefits which are generally provided for or made available to the employees of Employer.

10. CONFIDENTIAL DISCLOSURE. Except to the extent that the proper performance of Employee's duties pursuant to this Agreement may require disclosure, Employee agrees that he will not for any reason or at any time during the term of this Agreement disclose, communicate or divulge to, or use for the direct or indirect benefit of any person, firm or association or company other than Employer, any secret or confidential information relating to the customer lists, policies, processes, prospects, products, operations or services of Employer or any other secret or confidential information relating to Employer or its affiliates or the products or services and the accounting, marketing,

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selling, financing and other business methods and techniques of Employer. However, confidential information shall not include (A) at the time of disclosure to Employee such information that was in the public domain or later entered the public domain other than as a result of a breach of an obligation herein; or (B) subsequent to disclosure to Employee, Employee received such information from a third party under no obligation to maintain such information in confidence, and the third party came into possession of such information other than as a result of a breach of an obligation herein. All documents, materials or articles of information of any kind furnished to Employee by Employer or developed by Employee in the course of his employment hereunder are and shall remain the sole property of Employer; and if Employer requests the return of such information at any time during, upon or after the termination of Employee's employment hereunder, Employee shall immediately deliver the same to

Employer. Employee agrees that the remedy at law for any breach of the foregoing may be inadequate, and that Employer shall be entitled to any type of injunctive relief for any such breach in addition to any other rights or remedies in law or equity to which Employer may be entitled.

11. MISCELLANEOUS.

11.1 Assignability of Agreement. The provisions of this Agreement shall inure to the benefit of the parties hereto, and their respective permitted heirs, legal representatives, successors and assigns. Employer shall require any successor (whether direct or indirect, by purchase, merger, reorganization, consolidation, acquisition of property or stock, liquidation or otherwise) to all or a significant portion of its assets, by agreement in form and substance satisfactory to Employee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that Employer would be required to perform this Agreement if no such succession had taken place. The obligations of Employee under this Agreement shall be personal and not delegable by him in any manner whatsoever.

11.2 Notices. Any notice, request, instruction or other document to be given hereunder by either party hereto to the other shall be in writing and delivered personally or sent by certified or registered mail, postage prepaid, and if mailed to any address in a state other than the state of mailing, by air mail, addressed as follows:

- (a) If to Employee, to:
Michael Greenberg
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266

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- (b) If to Employer, to:
Skechers U.S.A., Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266
Attn: David Weinberg, Chief
Financial Officer

Any notice so given shall be deemed received when delivered personally, or (if mailed) when dispatched. Any party may change the address to which notices are to be sent by giving written notice of such change of address to the other party in the manner herein provided for giving notice.

11.3 Waiver. No waiver of any breach of any warranty, representation, covenant or other term or provision of this Agreement shall be deemed to be a waiver of any preceding or succeeding breach of the same or any other warranty, representation, covenant, term or provision. No extension of the time for performance of any obligation or other act shall be deemed to be an extension of the time for the performance of any other obligation of any other act.

11.4 Amendment to Agreement. This Agreement contains the entire agreement between the parties hereto with respect to the transactions contemplated herein, and may not be amended, supplemented or discharged except by an instrument in writing signed by both parties hereto. This Agreement supersedes any and all previous Employment Agreements between the parties which are hereby revoked.

11.5 Disputes/Attorneys Fees. Should any dispute arise concerning the terms or the interpretations of this Agreement, and such dispute results in arbitration and/or litigation then, unless otherwise directed by the court, the prevailing party shall be entitled to and be awarded reasonable attorneys' fees and costs in addition to any other relief to which it may be entitled.

11.6 Time of the Essence. Time is of the essence of each provision of this Agreement in which time is an element.

11.7 Arbitration. The parties agree if any controversy or claim shall arise out of this Agreement or the breach hereof and either party shall request that the matter be settled by arbitration the matter shall be settled exclusively by arbitration in accordance with the rules then in effect of the American Arbitration Association in the City of Los Angeles, California, as the same may be modified by the statutes of California then in effect, by a single arbitrator, if the parties shall agree upon one, or by one arbitrator appointee by each party and a third arbitrator appointed by the other arbitrators. In case of any failure of a party to make an appointment referred to above within two (2) weeks

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after written notice of controversy, such appointment shall be made by the Association. All arbitration proceedings shall be held in the City of Los Angeles, California, and each party agrees to comply in all respects with any award made in such proceeding and to the entry of a judgment in any jurisdiction upon any award rendered in such proceeding. All costs and expenses of arbitration (including costs of preparation therefor and reasonable attorneys' fees incurred in connection therewith) of the party prevailing in such arbitration shall be borne by the losing party to such arbitration, unless otherwise directed by the arbitrators. Notwithstanding any provision of this section herein set forth, no party may make a request for arbitration hereunder with respect to any matter at any time following the expiration of thirty days after notice of the filing of a legal action with respect to such matters in a court of competent jurisdiction.

11.8 Indemnification. Employer agrees to indemnify Employee for any and all liabilities to which he may be subject as a result of his service as an officer, director or other corporate agent of Employer, or of any other enterprise at the request of the Employer, or otherwise as a result of his employment hereunder, as well as the expense (including, without limitation, reasonable counsel fees) of any proceeding brought or threatened against Employee as a result of such service or employment, to the fullest extent permitted by law. Such counsel fees shall, to the fullest extent permitted by law, be paid by Employer in advance of the final disposition of the proceeding upon receipt of an undertaking of Employee satisfactory to counsel for Employer to repay such fees unless it shall ultimately be determined that he is not entitled to be indemnified with respect thereto.

11.9 Execution in Counterparts. This Agreement may be executed by the parties hereto in two counterparts, each of which shall be deemed to be an original, but all such counterparts shall constitute one and the same instrument, and all signatures need not appear on any one counterpart

11.10 Severability. If any provision of this Agreement shall be adjudged by any court of competent jurisdiction to be invalid or unenforceable for any reason, such judgment shall not affect, impair or invalidate the remainder of this Agreement

11.11 Headings Descriptive. The headings of the several paragraphs of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any of this Agreement.

11.12 Governing Law. This Agreement shall be construed in accordance with and be governed by the laws of the State of California.

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IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the Effective Date.

"EMPLOYER"

Skechers, U.S.A., Inc.

By: _____
Name: David Weinberg
Title: Executive Vice President and Chief
Financial Officer

"EMPLOYEE"

Michael Greenberg

EXHIBIT 10.5

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made and entered into as of the ____ day of June, 1999 (the "Effective Date") by and between Skechers U.S.A., Inc., a Delaware corporation, hereinafter referred to as "Employer" and David Weinberg hereinafter referred to as "Employee."

The parties contract with reference to the following facts:

A. Employer desires to employ Employee as its Executive Vice President and Chief Financial Officer and Employee desires to accept employment with Employer in such capacity.

B. The parties are willing to enter into an Agreement providing for such employment upon the terms and conditions hereinafter set forth.

THEREFORE, the parties agree as follows:

1. EMPLOYMENT. Employer hereby agrees to employ, and does hereby employ, Employee and Employee agrees to accept and hereby accepts employment by Employer, on the terms and subject to the conditions set forth in this Agreement.

2. COMPENSATION.

2.1 Salary. Employer shall pay to Employee a gross annual salary, as determined from time to time by the Board of Directors of Employer, provided; however, that in no event shall Employee's salary hereunder be at an annual rate less than Two Hundred Fifty Thousand Dollars (\$250,000) ("Salary"). Said Salary to be paid bi-weekly or in accordance with Employer's regular payroll practices.

2.2 Performance-Based Annual Bonus. For each full year during Employee's term as set forth in Section 5, commencing on the Effective Date, Employee shall be eligible to receive a cash bonus based on Employer's achievement of certain financial goals ("Performance-Based Annual Bonus"). For calendar year 1999, and until changed by the Board's Compensation Committee, the annual cash bonus award shall be determined on the basis of Employer's annual return on average equity ("ROE").

(a) if ROE for the calendar year is between 20.0% and 24.9%, the cash bonus shall be equal to 50% of Employee's annual salary for the subject calendar year pursuant to Section 2.1;

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(b) if ROE for the calendar year is at least equal to or greater than 25.0%, the cash bonus shall be equal to 100% of Employee's annual salary for the subject calendar year pursuant to Section 2.1; and

(c) The Performance-Based Annual Bonus payable for any calendar year shall be paid to Employee no later than the 15th day of April of the following year. Nothing herein shall preclude Employee from participating in any equity or equity-based compensation program of Employer and the bonus program set forth in this Section 2.2 herein may be replaced with a different program approved by the Board's Compensation Committee and agreed with by Employee.

2.3 Tax Withholding. Employer shall provide for the withholding of any taxes required to be withheld by Federal, state and local law with respect to any payment in cash, shares of capital stock or other property made by or on behalf of Employer to or for the benefit of Employee under this Agreement or otherwise. Employer may, at its option: (i) withhold such taxes from any cash payments owing from Employer to Employee, including any payments

owing under any other provision of the Agreement, (ii) require Employee to pay to Employer in cash such amount as may be required to satisfy such withholding or (iii) make other satisfactory arrangements with Employee to satisfy such withholding obligations.

3. DUTIES, TIME AND EFFORTS. Employee shall serve as Executive Vice Executive Vice President and Chief Financial Officer of Employer, as such, shall report to

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the Board of Directors or any Executive Committee of the Board of Directors of Employer and his duties shall include generally, but without limitation, all powers and duties consistent with such positions subject to the direction of the Board of Directors or any Executive Committee; and he shall also undertake such other reasonable duties of a similar managerial nature as the Board of Directors or Executive Committee of Employer may at any time, or from time to time, direct him to perform. It is understood that Employee may be required to provide services to other corporations owned by or, affiliated with Employer, without additional compensation. Other than providing services to affiliates, Employee shall devote his full productive time, energies, and abilities to the proper and efficient performance of Employer's business pursuant to the employment hereunder. Employee shall at all times during the term hereof be furnished with such office, stenographic and other necessary secretarial assistance, and such other facilities, amenities and services as are suitable to Employee's position as Executive Vice President and Chief Financial Officer of Employer and adequate for the performance of Employee's duties hereunder. Unless otherwise agreed to by Employee, Employee's offices shall be maintained at the premises of the principal office of the Employer in Manhattan Beach, California; provided, however, that in connection with the performance of his duties and responsibilities, Employee acknowledges that he may be required to undertake significant business traveling. Employee may not, without the prior express authorization of Employer's Board of Directors, directly or indirectly, during the term of this Agreement engage in any activity competitive with Employer's business or practice, whether acting alone, as a partner, or as an officer, director or employee of any other corporation, whether professional or otherwise; provided, however that nothing herein contained shall prevent Employee from purchasing and/or holding less than five percent (5%) of the issued and outstanding stock of a publicly-held corporation which competes with Employer.

4. VACATION. Employee shall be entitled to a paid vacation of four (4) weeks during each twelve (12) month period of the term of this Agreement. The date or dates of said vacation shall be determined by Employee and the Board of Directors of Employer. If for any reason Employee does not take his full four (4) weeks of vacation as provided above, he may carry over a maximum of one (1) week into the following year, but if he does not use the carried over vacation week in that year it shall expire. Therefore, under no circumstances, regardless of Employee's failure to take vacations, would he be entitled to more than five (5) weeks vacation during any twelve (12) month period.

5. TERM. The term of employment shall commence upon the date of this Agreement and terminate on the [] day of June, 2002 unless sooner terminated upon the happening of any of the following events:

5.1 Upon Mutual Agreement. Whenever Employer and Employee shall otherwise mutually agree to termination.

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5.2 Death. Death of Employee.

5.3 Disability. Disability of Employee, either physically or mentally, not arising out of an injury sustained while on Employer's business extending beyond One Hundred and Fifty (150) consecutive days, or totaling more than one hundred eighty (180) days in any period of three hundred sixty-five (365) days (not limited to any calendar or fiscal year). Such determination to be based upon a certificate as to such physical or mental disability employed by

Employer.

5.4 Termination for Cause After Notice and Failure to Cure.

Employer may at any time during the term of this Agreement, terminate Employee's employment with Employer for cause ("Cause"), by written notice to Employee by complying with the notice requirements and restrictions in Section 5.8. Cause shall be limited to the following reasons:

(a) Conviction of Employee for, or Employee pleads guilty or nolo contendere on, any crime involving a dishonest act or involving any behavior not expected of an Executive Vice President and Chief Financial Officer of a public corporation, which would make the continuance of his employment by Employer detrimental to Employer.

(b) Knowing and intentional commission of a material dishonest act by Employee in the scope of his employment, including, but not limited to theft, embezzlement, falsification of records, misappropriation of funds or property, or fraud against, or with respect to the business of, Employer or any affiliate, which would make the continuance of his employment by Employer detrimental to Employer.

(c) Persistent malfeasance, misfeasance or non-feasance in connection with the performance of his duties.

(d) Employee commits any act that causes, or knowingly fails to take reasonable and appropriate action to prevent, any material injury to the financial condition or business reputation of Employer or any of its affiliates; however, this shall not apply to (i) any act of Employer or its affiliates by any other employee thereof except to the extent that such act is committed at the direction, or with the knowledge, of Employee or (ii) any action in which Employee acted in good faith and in a manner reasonably to be in or not opposed to the best interests of Employer, as determined by Employer's Board of Directors.

(e) Breach of any material provision of this Agreement.

5.5 Good Reason (by Employee). Employee's employment may be

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terminated by Employee at any time for any of the following reasons (each of which is referred to herein as "Good Reason") by giving the Employer effective date of such termination (which effective date may be the date of such notice):

(a) Employer commits a breach of any material term of this Agreement and, if such breach is capable of being cured, fails to cure such breach within 15 days of receipt of written notice of such breach; or

(b) Employer removes Employee from the position of Executive Vice President and Chief Financial Officer of Employer other than for Cause, or Employer effects any diminution of the powers, duties or authority of Employee, in each case, without the prior written consent of the Employee.

5.6 Executive's Rights to Terminate. Employee may, at his option, terminate his employment hereunder for any reason upon 60 days' prior written notice to Employer.

5.7 Without Cause. Employer may, at its option, terminate Employee's employment without Cause at any time upon written notice to Employee.

5.8 Notice Requirements and Restrictions. Provided however, and by restriction to the right of Employer set forth in Section 5.4, in the event Employer contends that Employee is not performing the services required by this Agreement or that it has Cause to terminate this Agreement pursuant to Section 5.4 of this Agreement, Employer shall provide Employee with a written notice specifying in reasonable detail the services or matters in which it contends Employee has not been adequately performing and why Employer has Cause to terminate this Agreement, and what Employee should do to adequately perform

his obligations hereunder. If Employee performs the required services within fifteen (15) days of receipt of the notice or modified his performance to correct the matters complained of, Employee's breach will be deemed cured and he shall not be terminated; provided, however, if the nature of the service not performed by Employee or the matters complained of are such that more than fifteen (15) days are reasonably required to perform the required service or to correct the matters complained of, then Employee's breach will be deemed cured if Employee commences to perform such service or to correct such matters within said fifteen (15) day period and thereafter diligently prosecutes such performance or correction to completion. If Employee does not perform the required services or modify his performance to correct the matters complained of within said period Employer shall have the right to terminate this Agreement at the end of said fifteen (15) day period. It is understood that Employee's performance hereunder will not be deemed unsatisfactory solely on the basis of any economic performance of Employer, though the Board of Directors of Employer may consider economic performance as a

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factor. For purpose of this Agreement, the "Date of Termination" shall mean the later of the date that any party gives written notice that it intends to terminate this Agreement pursuant to the terms hereof, or the date, if any, specified by the terminating party in such notice as the effective date of termination.

6. OBLIGATIONS OF THE CORPORATION UPON TERMINATION.

6.1 Cause or Voluntary. If Employee's employment shall be terminated under Sections 5.1, 5.2, 5.4 or 5.6, Employer's obligations to Employee shall terminate, other than the obligation (i) to pay to Employee his Salary through the Date of Termination at the rate in effect on the day preceding the Date of Termination, (ii) any bonus due as of the Date of Termination, and (iii) to continue to provide Employee with benefits of the type described in Section 9 through the Date of Termination.

6.2 Without Cause or for Good Reason. If Employer shall terminate Employee's employment without Cause pursuant to Section 5.7, or if Employee shall terminate his employment for Good Reason pursuant to Section 5.5, Employer shall (i) continue, in accordance with Employer's normal payroll procedures, to pay the Employee his Salary through the Expiration Date of this Agreement, (ii) continue to pay the Employee his Performance - Based Annual Bonus pursuant to Section 2.2 through the Expiration Date of this Agreement at the rate in effect on the day preceding the Date of Termination, and (iii) continue to provide the Executive with benefits of the type described in Section 9 through the Expiration Date of this Agreement.

6.3 Disability. During any period of total disability, Employee shall be entitled to his full compensation as provided for hereunder for a period of three (3) months. Thereafter during such period of total disability, Employee shall be entitled to compensation for the balance of the term of this Agreement equal to the Base Salary otherwise payable to the Employee under Section 2.1 hereof, during such period of total disability, less amounts received by the Employee under a policy provided pursuant to Section 9.4.

7. EMPLOYER'S AUTHORITY. To the extent that the following is not inconsistent with the other provisions of this Agreement, Employee agrees to observe and comply with the rules and regulations of Employer as adopted by Employer's Board of Directors respecting performance of this duties and to carry out and perform orders, directions and policies of Employer as they may be, from time to time, stated to him either orally or in writing.

8. EFFECTIVE DATE. The effective date of this Agreement shall be the date of execution as indicated above.

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9. EXPENSES AND FRINGE BENEFITS.

9.1 Employer shall also pay or reimburse all expenses reasonably incurred by Employee in discharge or Employee's duties hereunder. Such expenses shall include, without limitation, the following:

- (a) Automobile lease expenses of Employee;
- (b) Education expenses incurred for the purpose of maintaining or improving Employee's skills;
- (c) Expenses for travel, lodging, and related expenses in connection with conventions or meetings, attendance at which is necessary or appropriate in connection with the performance by Employee of his duties required hereunder;
- (d) Expenses for meals, entertainment and similar items reasonably incurred by Employee in connection with the business of Employer; and
- (e) Such other expenses incurred by the Employee reasonably related to the discharge by Employee of his duties as set forth herein.

9.2 Employer reserves the right to require, as a condition of payment or reimbursement for any item pursuant to Section 9.1, Employee to furnish Employer with reasonable documentation evidencing that the expense has been incurred and the relationship of such item to the business of Employer or the duties of Employee.

9.3 Employer shall provide, for the benefit of Employee and his spouse, standard coverage medical insurance, with additional coverage for dental expenses.

9.4 Notwithstanding any provision herein to the contrary, Employer shall provide the Employee all other Employee fringe benefits which are generally provided for or made available to the employees of Employer.

10. CONFIDENTIAL DISCLOSURE. Except to the extent that the proper performance of Employee's duties pursuant to this Agreement may require disclosure, Employee agrees that he will not for any reason or at any time during the term of this Agreement disclose, communicate or divulge to, or use for the direct or indirect benefit of any person, firm or association or company other than Employer, any secret or confidential information relating to the customer lists, policies, processes, prospects, products,

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operations or services of Employer or any other secret or confidential information relating to Employer or its affiliates or the products or services and the accounting, marketing, selling, financing and other business methods and techniques of Employer. However, confidential information shall not include (A) at the time of disclosure to Employee such information that was in the public domain or later entered the public domain other than as a result of a breach of an obligation herein; or (B) subsequent to disclosure to Employee, Employee received such information from a third party under no obligation to maintain such information in confidence, and the third party came into possession of such information other than as a result of a breach of an obligation herein. All documents, materials or articles of information of any kind furnished to Employee by Employer or developed by Employee in the course of his employment hereunder are and shall remain the sole property of Employer; and if Employer requests the return of such information at any time during, upon or after the termination of Employee's employment hereunder, Employee shall immediately deliver the same to Employer. Employee agrees that the remedy at law for any breach of the foregoing may be inadequate, and that Employer shall be entitled to any type of injunctive relief for any such breach in addition to any other rights or remedies in law or equity to which Employer may be entitled.

11. MISCELLANEOUS.

11.1 Assignability of Agreement. The provisions of this Agreement shall inure to the benefit of the parties hereto, and their respective permitted heirs, legal representatives, successors and assigns. Employer shall require any successor (whether direct or indirect, by purchase, merger, reorganization, consolidation, acquisition of property or stock, liquidation or otherwise) to all or a significant portion of its assets, by agreement in form and substance satisfactory to Employee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that Employer would be required to perform this Agreement if no such succession had taken place. The obligations of Employee under this Agreement shall be personal and not delegable by him in any manner whatsoever.

11.2 Notices. Any notice, request, instruction or other document to be given hereunder by either party hereto to the other shall be in writing and delivered personally or sent by certified or registered mail, postage prepaid, and if mailed to any address in a state other than the state of mailing, by air mail, addressed as follows:

- (a) If to Employee, to:
David Weinberg
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266

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- (b) If to Employer, to:
Skechers U.S.A., Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266
Attn: Michael Greenberg, President

Any notice so given shall be deemed received when delivered personally, or (if mailed) when dispatched. Any party may change the address to which notices are to be sent by giving written notice of such change of address to the other party in the manner herein provided for giving notice.

11.3 Waiver. No waiver of any breach of any warranty, representation, covenant or other term or provision of this Agreement shall be deemed to be a waiver of any preceding or succeeding breach of the same or any other warranty, representation, covenant, term or provision. No extension of the time for performance of any obligation or other act shall be deemed to be an extension of the time for the performance of any other obligation of any other act.

11.4 Amendment to Agreement. This Agreement contains the entire agreement between the parties hereto with respect to the transactions contemplated herein, and may not be amended, supplemented or discharged except by an instrument in writing signed by both parties hereto. This Agreement supersedes any and all previous Employment Agreements between the parties which are hereby revoked.

11.5 Disputes/Attorneys Fees. Should any dispute arise concerning the terms or the interpretations of this Agreement, and such dispute results in arbitration and/or litigation then, unless otherwise directed by the court, the prevailing party shall be entitled to and be awarded reasonable attorneys' fees and costs in addition to any other relief to which it may be entitled.

11.6 Time of the Essence. Time is of the essence of each provision of this Agreement in which time is an element.

11.7 Arbitration. The parties agree if any controversy or claim shall arise out of this Agreement or the breach hereof and either party shall request that the matter be settled by arbitration the matter shall be settled exclusively by arbitration in accordance with the rules then in effect of the American Arbitration Association in the City of Los Angeles, California, as the same may be modified by the statutes of California then in effect, by a single arbitrator, if the parties shall agree upon one, or by one arbitrator

appointee by each party and a third arbitrator appointed by the other arbitrators. In case of any failure of a party to make an appointment referred to above within two (2) weeks

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after written notice of controversy, such appointment shall be made by the Association. All arbitration proceedings shall be held in the City of Los Angeles, California, and each party agrees to comply in all respects with any award made in such proceeding and to the entry of a judgment in any jurisdiction upon any award rendered in such proceeding. All costs and expenses of arbitration (including costs of preparation therefor and reasonable attorneys' fees incurred in connection therewith) of the party prevailing in such arbitration shall be borne by the losing party to such arbitration, unless otherwise directed by the arbitrators. Notwithstanding any provision of this section herein set forth, no party may make a request for arbitration hereunder with respect to any matter at any time following the expiration of thirty days after notice of the filing of a legal action with respect to such matters in a court of competent jurisdiction.

11.8 Indemnification. Employer agrees to indemnify Employee for any and all liabilities to which he may be subject as a result of his service as an officer, director or other corporate agent of Employer, or of any other enterprise at the request of the Employer, or otherwise as a result of his employment hereunder, as well as the expense (including, without limitation, reasonable counsel fees) of any proceeding brought or threatened against Employee as a result of such service or employment, to the fullest extent permitted by law. Such counsel fees shall, to the fullest extent permitted by law, be paid by Employer in advance of the final disposition of the proceeding upon receipt of an undertaking of Employee satisfactory to counsel for Employer to repay such fees unless it shall ultimately be determined that he is not entitled to be indemnified with respect thereto.

11.9 Execution in Counterparts. This Agreement may be executed by the parties hereto in two counterparts, each of which shall be deemed to be an original, but all such counterparts shall constitute one and the same instrument, and all signatures need not appear on any one counterpart

11.10 Severability. If any provision of this Agreement shall be adjudged by any court of competent jurisdiction to be invalid or unenforceable for any reason, such judgment shall not affect, impair or invalidate the remainder of this Agreement

11.11 Headings Descriptive. The headings of the several paragraphs of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any of this Agreement.

11.12 Governing Law. This Agreement shall be construed in accordance with and be governed by the laws of the State of California.

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IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the Effective Date.

"EMPLOYER"

Skechers, U.S.A., Inc.

By: _____
Name: Michael Greenberg
Title: President

"EMPLOYEE"

David Weinberg

SKECHERS U.S.A., INC.

REGISTRATION RIGHTS AGREEMENT

_____, 1999

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT is made as of the ____ day of _____, 1999 by and among Skechers U.S.A., Inc., a Delaware corporation (the "Company"), the Greenberg Family Trust and Michael Greenberg, each of which is herein referred to as an "Investor."

WHEREAS, the Holders (as defined below) hold shares of the Company's Class B Common Stock, \$0.001 par value (the "Class B Common Stock") which is convertible at any time at the Holder's option into shares of the Company's Class A Common Stock, \$0.001 par value (the "Class A Common Stock" and together with the Class B Common Stock, the "Common Stock") on a share-for-share basis;

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the parties hereto agree as follows:

1. Registration Rights. The Company covenants and agrees as follows:

- 1.1 Definitions. For purposes of this Section 1:

- (a) The term "register," "registered," and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Securities Act of 1933, as amended (the "Act"), and the declaration or ordering of effectiveness of such registration statement or document.

- (b) The term "Registrable Securities" means the Class A Common Stock issuable upon conversion of the shares of Class B Common Stock owned by each of the Holders as of the effective date of the Company's initial public offering and any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, such Common Stock, excluding in all cases, however, any Registrable Securities sold by a person in a transaction in which his rights

under this Section 1 are not assigned.

(c) The number of shares of "Registrable Securities then outstanding" shall be determined by the number of shares of Common Stock outstanding which are, and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities which are, Registrable Securities.

(d) The term "Holders" means any holder or holders of the Registrable Securities.

1.2 Request for Registration.

(a) If the Company shall receive at any time after the expiration of 180 days from the effective date of the registration statement for the initial public offering of securities of the Company, a written request from the Holders of at least 10% of the Registrable Securities then outstanding that the Company

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file a registration statement under the Act covering the registration of the Holders' Registrable Securities as limited in amount pursuant to Section 1.1(b) and Section 1.2(d), then the Company shall, subject to the limitations of subsection 1.2(b), effect as soon as practicable, and in any event shall use its best efforts to effect within 90 days of the receipt of such request, the registration under the Act of all Registrable Securities which the Holders request to be registered.

(b) If the Holders initiating the registration request hereunder ("Initiating Holders") intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 1.2 and the Company shall include such information in the written notice referred to in subsection 1.2(a). The underwriter will be selected by a majority in interest of the Initiating Holders and shall be reasonably acceptable to the Company. In such event, the right of any Holder to include his Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company as provided in subsection 1.4(e)) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by a majority in interest of the Initiating Holders. Notwithstanding any other provision of this Section 1.2, if the underwriter advises the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then the Initiating Holders shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the underwriting shall be allocated among all Holders thereof, including the Initiating Holders, in proportion (as nearly as practicable) to the amount of Registrable Securities of the Company owned by each Holder; provided, however, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting.

(c) The Company is obligated to effect pursuant to this Section 1.2. only two (2) such registrations per year, per Holder.

(d) (1) The maximum amount of Registrable Securities which may be registered by any Holder pursuant to this Section 1.2 in any twelve-month period is an amount equal to one third of the shares of Common Stock held by each of the Investors, respectively, on the effective date of the Company's initial public offering of its Class A Common Stock (i.e. if the Greenberg Family Trust owns 3,000,000 shares on the effective date and Michael Greenberg owns 1,500,000 shares on the effective date, then the Greenberg Family Trust, or transferees of the Greenberg Family Trust would be entitled to register up to a maximum of 1,000,000 shares in any twelve-month period, as adjusted pursuant to Section 1.1(b), Section 1.3 and this Section 1.2, and Michael Greenberg or his transferees would be able to register up to a maximum of 500,000 shares in any

twelve-month period as adjusted pursuant to Section 1.1(b), Section 1.3 and this Section 1.2), such amounts may be reduced by any sales made by an Investor during the subject twelve-month period pursuant to (i) Rule 144, (ii) any private transactions, or (iii) an effective registration statement; excluded

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from such amounts are any sales of securities made pursuant to a registration statement which was filed in any previous twelve-month period.

(2) The twelve-month period immediately following the Company's initial public offering will exclude any shares sold by an Investor pursuant to the Company's initial public offering.

(3) During the first twelve-month period commencing upon the transfer of shares from an Investor to a transferee, any transferees of the Investors are entitled to register a maximum amount of shares equal to the lesser of (i) the amount the respective Investor is entitled to register for the twelve-month period immediately preceding the transfer or (ii) the number of Registrable Securities that are actually transferred to the transferee.

(e) Notwithstanding the foregoing, if the Company shall furnish to each Holder requesting a registration statement pursuant to this Section 1.2, a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its stockholders for such registration statement to be filed and it is therefore essential to defer the filing of such registration statement, the Company shall have the right to defer taking action with respect to such filing for a period of not more than 90 days after receipt of the request of the Initiating Holders; provided, however, that the Company shall only be permitted to exercise its right of deferral once in any twelve-month period.

1.3 Company Registration.

(a) If (but without any obligation to do so) the Company proposes to register any of its stock or other securities, including for this purpose a registration effected by the Company for stockholders other than the Holders, under the Act in connection with the public offering of such securities solely for cash (other than a registration relating solely to the sale of securities to participants in a Company stock plan, or a registration on any form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of a Holder given within twenty (20) days after mailing of such notice by the Company in accordance with Section 3.5, the Company shall, subject to the provisions of Section 1.8, cause to be registered under the Act all of the Registrable Securities that each such Holder has requested to be registered.

(b) (1) The maximum amount of Registrable Securities which may be registered by any Holder pursuant to this Section 1.3 in any twelve-month period is an amount equal to one third of the shares of Common Stock held by each of the respective Investors, respectively, on the effective date of the Company's initial public offering of its Common Stock (i.e. if the Greenberg Family Trust owns 3,000,000 shares on the effective date and Michael Greenberg owns 1,500,000 shares on the effective date, then the Greenberg Family Trust, or transferees of the Greenberg Family Trust would be entitled to register up to a maximum of 1,000,000 shares in any twelve-month period, as adjusted pursuant to Section 1.1(b), Section 1.2 and this Section 1.3, and Michael Greenberg or his transferees would be able to register up to a maximum of 500,000 shares in any twelve-month period as adjusted pursuant to Section 1.1(b), Section 1.2 and this

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Section 1.3, such amounts may be reduced by any sales made by an Investor during the subject twelve-month period pursuant to (i) Rule 144, (ii) any private

transactions, or (iii) an effective registration statement; excluded from such amounts are any sales of securities made pursuant to a registration statement which was filed in any previous twelve-month period.

(2) The maximum amount of Registrable Securities which may be sold during the twelve-month period immediately following the Company's initial public offering will exclude any shares sold by the Investors pursuant to the Company's initial public offering.

(3) Any Holder requesting to register shares pursuant to this Section 1.3 that owns outstanding shares which are the subject of a registration statement filed pursuant to Section 1.2, that is requested by an underwriter engaged by the Company in connection with the registration statement filed pursuant to this Section 1.3 in which such Holder intends to participate, to withdraw the registration statement filed pursuant to Section 1.2 as a condition precedent to such Holder's participation in any registration statement filed pursuant to this Section 1.3 shall not be deemed to have made such demand if such Holder requests the Company to withdraw such registration statement.

(4) During the first twelve-month period commencing upon the transfer of shares from an Investor to a transferee, any transferees of the Investors are entitled to register a maximum amount of shares equal to the lesser of (i) the amount the respective Investor is entitled to register for the twelve-month period immediately preceding the transfer or (ii) the number of Registrable Securities that are actually transferred to the transferee.

1.4 Obligations of the Company. Whenever required under this Section 1 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the Securities and Exchange Commission (the "SEC") a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to one hundred twenty (120) days.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

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(d) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light

of the circumstances then existing.

(g) Use its best efforts to furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Section 1, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Section 1, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.

1.5 Furnish Information.

(a) It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 1 with respect to the Registrable Securities of any Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be required to effect the registration of such Holder's Registrable Securities.

1.6 Expenses of Demand Registration. All expenses other than underwriting discounts and commissions incurred in connection with registrations, filings or qualifications pursuant to Section 1.2, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of one counsel for the Holders shall be borne by the Company; provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 1.2 if

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the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all Participating Holders shall bear such expenses), unless the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 1.2; provided further, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business, or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness following disclosure by the Company of such material adverse change, then the Holders shall not be required to pay any of such expenses and shall retain their rights pursuant to Section 1.2.

1.7 Expenses of Company Registration. The Company shall bear and pay all expenses incurred in connection with any registration, filing or qualification of Registrable Securities with respect to the registrations pursuant to Section 1.3 for each Holder (which right may be assigned as provided in Section 1.13), including (without limitation) all registration, filing, and qualification fees, printers and accounting fees relating or apportionable thereto and the fees and disbursements of one counsel for the Holder selected by them, but excluding underwriting discounts and commissions relating to Registrable Securities.

1.8 Underwriting Requirements. In connection with any offering involving an underwriting of shares of the Company's capital stock the Company shall not be required under Section 1.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by it (or by other persons entitled to select the underwriters), and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. If the total amount of securities, including Registrable Securities, requested by stockholders to be

included in such offering exceeds the amount of securities sold other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters determine in their sole discretion will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among the Holders according to the total amount of securities entitled to be included therein owned by each Holder or in such other proportions as shall mutually be agreed to by the Holders) but in no event shall (i) the amount of securities of the Holders included in the offering be reduced below twenty-five percent (25%) of the total amount of securities included in such offering.

1.9 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.10 Indemnification. In the event any Registrable Securities are included in a registration statement under this Section 1:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, any underwriter (as defined in the Act) for such Holder and each person, if any, who controls such Holder or underwriter within the

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meaning of the Act or the Securities Exchange Act of 1934, as amended (the "1934 Act"), against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Act, the 1934 Act, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Act, or the 1934 Act, or any rule or regulation promulgated under the Act, or the 1934 Act; and the Company will pay to each Holder, underwriter or controlling person, as incurred, any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.10(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, underwriter or controlling person.

(b) To the extent permitted by law, each Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Act, any underwriter, any other Holder selling securities in such registration statement and any controlling person of any such underwriter or other Holder, against any losses, claims, damages, or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Act, or the 1934 Act insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will pay, as incurred, any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this subsection 1.10(b), in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained

in this subsection 1.10(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; provided, that, in no event shall any indemnity under this subsection 1.10(b) exceed the gross proceeds from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 1.10 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.10, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutual

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satisfactory to the parties; provided, however, that an indemnified party (together with other indemnified parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 1.10, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.10.

(d) If the indemnification provided for in this Section 1.10 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

(e) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

(f) The obligations of the Company and Holders under this Section 1.10 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 1, and otherwise.

1.11 Reports Under Securities Exchange Act of 1934. With a view to making available to the Holders the benefits of Rule 144 promulgated under the Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times after ninety (90) days after the effective date of the first registration statement filed by the Company for the offering of its securities to the general public;

(b) take such action, including the voluntary registration of its Class A Common Stock under Section 12 of the 1934 Act, as is necessary to enable the Holders to utilize Form S-3 for the sale of their Registrable Securities, such action to be taken when the first registration statement filed by the Company for the offering of its securities to the general public is declared effective;

(c) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the 1934 Act; and

(d) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form.

1.12 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 1 may be assigned (but only with all related obligations) by a Holder, provided the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; and provided, further, that such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Act. For the purposes of determining the number of shares of Registrable Securities held by a transferee or assignee, the holdings of transferees and assignees of a partnership who are partners or retired partners of such partnership (including spouses and ancestors, lineal descendants and siblings of such partners or spouses who acquire Registrable Securities by gift, will or intestate succession) shall be aggregated together and with the partnership; provided that all assignees and transferees who would not qualify individually for assignment of registration rights shall have a single attorney-in-fact for the purpose of exercising any rights, receiving notices or taking any action under this Section 1.

1.14 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders, so long as they own any outstanding Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of the Company which would allow such holder or prospective holder (a) to include such securities in any registration filed under Section 1.2 hereof, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of his securities will not reduce the amount of the Registrable Securities of the Holders which is included or (b) to make a demand registration which could result in such registration statement being declared effective prior to the date set forth in subsection 1.2(a) or within one hundred twenty (120) days of the effective date of any registration effected pursuant to Section 1.2.

1.15 "Market Stand-Off" Agreement. Each Holder hereby agrees that, during the period of duration, not to exceed 180 days, specified by the Company and an underwriter of the Common Stock or other securities of the Company, following the effective date of a registration statement of the Company filed under the Act, it shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell

(including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except Class A Common Stock included in such registration; provided, however, that:

(a) such agreement shall be applicable only to the first such registration statement of the Company which covers Class A Common Stock (or other securities) to be sold on its behalf to the public in an underwritten offering; and

(b) all officers and directors of the Company and all other persons with registration rights (whether or not pursuant to this Agreement) enter into similar agreements.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Holder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

2. Covenants of the Company.

2.1 Delivery of Financial Statements. The Company shall deliver to each Holder, as soon as practicable, but in any event within ninety (90) days after the end of each fiscal year of the Company, an income statement for such fiscal year, a balance sheet of the Company and statement of stockholders' equity as of the end of such year, and a statement of cash flows for such year, such year-end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles ("GAAP"), and audited and certified by independent public accountants of nationally recognized standing selected by the Company.

3. Miscellaneous.

3.1 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

3.2 Governing Law. This Agreement shall be governed by and construed under the laws of the State of Delaware.

3.3 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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3.4 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

3.5 Notices. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or three (3) days after deposit with the United States Post Office, by registered or certified mail, postage prepaid and addressed to the party to be notified at the address indicated for such party on the signature page hereof, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

3.6 Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

3.7 Amendments and Waivers. Except as otherwise provided herein, any

term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the holders of a majority of the Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Registrable Securities then outstanding, each future holder of all such Registrable Securities, and the Company.

3.8 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

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

SKECHERS U.S.A., INC.

By: _____
Name: _____
Title: _____

THE GREENBERG FAMILY TRUST

By: _____
Name: Robert Y. Greenberg
Title: Trustee

By: _____
Name: M. Susan Greenberg
Title: Trustee

MICHAEL GREENBERG

By: _____
Michael Greenberg

By: _____
Wendy Greenberg

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EXHIBIT 10.8

TAX INDEMNIFICATION AGREEMENT

This Tax Indemnification Agreement ("Agreement") is made this ___ day of _____, 1999, by and among Skechers U.S.A., Inc., a Delaware Corporation ("Skechers" or the "Corporation"), Michael Greenberg, Jeffrey Greenberg, Jason Greenberg, Joshua Greenberg, Jennifer Greenberg, Robert and Susan Greenberg, Trustees of the Greenberg Family Trust u/d/t May 3, 1998, David Schwartzberg, Julie Schwartzberg, Gil Schwartzberg, and Debbie Schwartzberg (each such individual a "Shareholder," and all such individuals collectively the "Shareholders"), such Shareholders owning all of the capital stock of the Corporation. Skechers and the Shareholders are hereinafter referred to individually as a "party" and collectively as the "parties".

WHEREAS, the Corporation is and has been an "S corporation" (within the meaning of section 1361 of the Internal Revenue Code of 1986, as amended (the "Code")) since May 29, 1992;

WHEREAS, Corporation contemplates a public offering (the "Offering") of its stock;

WHEREAS, it is anticipated that Corporation's election to be an S corporation will terminate as a result of revocation of such status in accordance with Section 1361(d)(1) of the Code, upon the effective date of the Offering; and

WHEREAS, in connection with the Offering, Corporation and Shareholders wish to provide for certain indemnifications with respect to Corporation's prior status as an S corporation.

NOW, THEREFORE, the parties agree as follows:

1. Tax Returns and Reporting.

(a) Consistent Reporting by Corporation. For all taxable years ended on or before the day before Corporation's S corporation election terminates, Corporation shall not (except as required by law), without the unanimous consent of Shareholders (which consent shall not be unreasonably withheld), file any amended income tax return or change any election or accounting method with respect to Corporation, if such filing or change would increase any federal, state, local (including but not limited to city or county) or foreign income tax liability (including interest and penalties, if any) (collectively "Tax Liability") of any Shareholder for any period. The limitation of liability contained in section 2(a)(v) hereinbelow does not apply in the event Corporation breaches the prohibition contained in this section 1(a).

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(b) Responsibility for Tax Returns. Corporation shall file all tax returns required to be filed by it with respect to all periods for which returns shall become due after the closing of Corporation's initial public offering, including all returns for the short taxable year which concludes upon the termination of Corporation's S election.

(c) Responsibility for Taxes. Each Shareholder shall file all required tax returns reporting his/her allocable share of Corporation's taxable income for all years prior to the termination of the S election, subject only to the indemnities set forth in paragraph 2 hereinbelow.

(d) Allocation Election. Corporation shall terminate its S corporation status by a revocation of such status pursuant to section 1361(d)(1) of the Code by filing the form attached hereto and marked "Exhibit A." The Shareholders shall consent to the revocation of the S corporation election by filing the form, attached hereto and marked "Exhibit B" no later than one day before the closing of the Offering (the "Termination Date"). Further, Corporation shall elect to allocate items between its two taxable years ending and beginning, respectively, on the date of termination and the date after the

termination of the S election, "under normal tax accounting rules," that is, the "closing of the books method," as provided in section 1362(e)(3)(A) of the Code by filing the form attached hereto as "Exhibit C." The Shareholders shall each consent to the "closing of the books method" election, by filing the forms attached hereto and marked "Exhibit D" pursuant to section 1362(e)(3)(B) of the Code.

2. Indemnification.

(a) Indemnification of Shareholders.

(i) **Indemnification for Tax Liability.** Corporation hereby agrees to indemnify and hold Shareholders harmless from, against and in respect of any Tax Liability incurred by them resulting from a final judicial or administrative adjustment (by reason of an amended return, claim for refund, audit or otherwise) to Corporation's taxable income which is the result of an increase or change in character of Corporation's income during the period it was treated as an S corporation.

(ii) **Tax Adjustment.** In the event that an indemnification payment pursuant to section 2(a)(i) exceeds the amount of the increase in the Corporation's accumulated adjustments account (as defined in IRC section 1368(e)(1)) resulting from the adjustment (or to the extent such payment to Shareholders does not qualify as a distribution during the post-termination transition period as defined in IRC section 1377(b)) such amount shall be increased by an amount calculated pursuant to section 2(a)(iv) hereinbelow.

(iii) **Fees and Costs.** Corporation hereby agrees to reimburse Shareholders for such professional fees or other costs as are reasonably necessary to defend Shareholders in the event of an audit or review of a Shareholder's income tax return during a

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year in which the Shareholders were reporting corporate income by virtue of the S corporation election.

(iv) **Gross Up for Additional Tax.** In all events, and to the extent not otherwise reimbursed, Corporation hereby agrees that if any payment pursuant to this section 2(a) is deemed to be taxable income to a Shareholder, the amount of such payment to the Shareholder shall be increased by an amount necessary to equal the Shareholder's additional Tax Liability related to such amount (including, without limitation any taxes on such additional amounts) so that the net amount received and retained by a Shareholder after payment by the Shareholder of all taxes associated with the payment is equal to the payment otherwise required to be made.

(v) **Indemnification Limited to Tax Benefit.** Notwithstanding anything to the contrary in this Agreement, the Company's obligation to indemnify pursuant to section 2(a) of this Agreement shall be limited to the amount of the Company's actual tax savings, if any, attributable to the circumstances giving rise to the increase in the Tax Liability of a Shareholder.

(b) Indemnification of Corporation.

(i) **Indemnification for Failure to Qualify as an S Corporation.** Each of the shareholders, severally agrees (according to the percentage of the outstanding shares of Skechers' common stock owned by such shareholder for the year in question) and jointly, to indemnify and hold Corporation harmless from, against, and in respect for any U.S. federal or state income tax liability (including interest and penalties), if any, resulting from Corporation failing to qualify as an S corporation under Section 1361(a)(1) of the IRC (as enacted and in effect prior to the date of termination), pursuant to a final determination by an applicable taxing authority, for any taxable year on or before the Termination Date as to which Corporation filed or files tax returns claiming status as an S corporation.

(ii) **Indemnification for Tax Liability.** In addition to the indemnification obligation provided in section 2(b)(i) Shareholders

hereby agree to indemnify and hold harmless Corporation against any increase in Corporation's Tax Liability, and costs relating thereto, with respect to any tax year to the extent such increase results in a related decrease in the Tax Liability of Shareholders for any period prior to the termination of the Corporation's S status.

(c) Payment. Any payment required to be made pursuant to this Agreement shall be paid within seven days after receipt of written notice from the indemnified person that a payment is due hereunder.

3. Waiver of Invalid Election or Termination of S Status. If the Internal Revenue Service determines that Corporation failed validly to elect to be an S corporation or that Corporation's status as an S corporation was terminated inadvertently, and if Corporation wishes to obtain a ruling pursuant to section 1362(f) of the Code, each Shareholder agrees to make any adjustments

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required pursuant to section 1362(f)(4) of the Code and approved by Corporation's board of directors. Any such adjustments shall be subject to the indemnification provisions of section 2(a).

4. Miscellaneous. This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which counterparts collectively shall constitute an instrument representing the Agreement between the parties hereto. This Agreement shall be governed by California law, without regard to choice of law rules applied by California courts. This Agreement shall be binding on and shall inure to the benefit of successors and assigns of the parties, including all persons to whom any Shareholder transfers stock of Corporation. Section headings shall not affect the interpretation of this Agreement. This Agreement embodies the entire agreement of the parties with respect to the subject matter contained herein. The parties hereto agree to take all further actions necessary to effect the agreements contained herein.

WHEREFORE this Agreement was executed on the date first aforesaid.

CORPORATION: Skechers U.S.A., Inc., a Delaware Corporation

By: _____
Name:
Title:

SHAREHOLDERS:

Michael Greenberg Robert and Susan Greenberg,
Trustees of the Greenberg Family Trust
u/d/t May 3, 1988

Jeffrey Greenberg David Schwartzberg

Jason Greenberg Julie Schwartzberg

Joshua Greenberg Gil Schwartzberg

Jennifer Greenberg Debbie Schwartzberg

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EXHIBIT A

STATEMENT OF REVOCATION OF ELECTION

Internal Revenue Service Center
Fresno, California 93888

RE: Skechers U.S.A., Inc., a Delaware corporation
EIN 95-4376145

Revocation of S Corporation Election

The S corporation election under section 1362(a) of the Internal Revenue Code of Skechers U.S.A., Inc., a Delaware corporation, with its principal office located at 228 Manhattan Beach Boulevard, Manhattan Beach, CA 90266, is hereby revoked as of _____, 1999. At the time of revocation, the number of shareholders (issued and outstanding) of Skechers U.S.A., Inc. stock, including nonvoting stock, is 27,814,155.

Attached are the consents to the revocation by shareholders owning more than one-half of the issued and outstanding shares.

Skechers U.S.A., Inc., a Delaware corporation

By: _____

Title: _____

Date: _____

Attachment

{All revocations and consents should be mailed to the IRS certified mail return receipt requested.}

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EXHIBIT B

SHAREHOLDERS' STATEMENT OF CONSENT TO REVOCATION OF ELECTION

We, the undersigned, being shareholders of Skechers, U.S.A., Inc., a Delaware corporation ("Skechers"), holding all of Skechers' issued and outstanding shares (including nonvoting stock), do hereby consent to the revocation by Skechers of its S corporation election under section 1362(a) of the Internal Revenue Code. The revocation is to be effective as of _____ 1999.

Under penalties of perjury, the undersigned declare that the facts presented in the accompanying statement are, to the best of our knowledge and belief, true, correct, and complete.

<TABLE>
<CAPTION>

Name and Address <S>	Social Security or Employer Identification Number <C>	Date Acquired Number of Shares Owned <C>		Per Regs. 1.1362-6(b)(1) <C>	Tax Year End (Month & Day)
	Michael Greenberg		2,781,415		
Jeffrey Greenberg		1,390,708			
Jason Greenberg		1,390,708			
Joshua Greenberg		1,390,708			
Jennifer Greenberg		1,390,708			
Robert and Susan Greenberg, Trustees of the Greenberg Family					

Trust, u/d/t 5/3/88	18,079,198
David Schwartzberg	278,142
Julie Schwartzberg	278,142
Gil Schwartzberg	417,213
Debbie Schwartzberg	417,213

</TABLE>

Michael Greenberg Robert and Susan Greenberg,
Trustees of the Greenberg Family Trust
u/d/t May 3, 1998

Jeffrey Greenberg David Schwartzberg

Jason Greenberg Julie Schwartzberg

Joshua Greenberg Gil Schwartzberg

Jennifer Greenberg Debbie Schwartzberg

Dated: _____, 1999

{All election and consents should be mailed to the IRS certified mail return receipt requested.}

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EXHIBIT C

ELECTION TO CLOSE BOOKS UPON S CORPORATION TERMINATION

(Attach to Form 1120)

Skechers U.S.A., Inc., a Delaware corporation ("Skechers"), EIN 95-4376145, with the consent of all the shareholders of the short S year and all the shareholders on the first day of the short C year (attached), elects under section 1362(e)(3) of the Internal Revenue Code not to have the pro rata allocation of S corporation items under section 1362(e)(2) of the Internal Revenue Code apply to the S termination year ending _____, 1999. The date of Skechers' termination was _____, 1999 and the cause of termination was an election to revoke its status as an S corporation.

Skechers U.S.A., Inc. a Delaware corporation

By: _____
Name:
Title:

Date: _____

Attachment

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EXHIBIT D

SHAREHOLDER CONSENT

RE: Skechers U.S.A., Inc., a Delaware corporation
EIN 95-4376145

SHAREHOLDER NAME: _____

SHAREHOLDER ADDRESS: _____

TAXPAYER IDENTIFICATION NUMBER: _____

NUMBER OF SHARES: _____

DATE OR DATES SHARES ACQUIRED: _____

DATE SHAREHOLDER'S TAX YEAR ENDS: _____

THE UNDERSIGNED HEREBY CONSENTS TO THE ELECTION OF SKECHERS U.S.A., INC., A CALIFORNIA CORPORATION TO ALLOCATE THE TAXABLE INCOME OF THE CORPORATION FOR THE S TERMINATION YEAR AS PROVIDED BY SECTION 1362(e)(3) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.

This consent is executed by the undersigned under penalties of perjury.

Date: _____ Signature: _____

Date: _____ Signature: _____

Note: Each person owning a community property, tenancy in common, joint tenancy, or tenancy by the entirety interest must sign. Consent of minor must be by legal representative or parent if no legal representative. Consent of qualifying trust must be the person treated as shareholder under Section 1361(b)(1) of the Code.

EXHIBIT 23.1

INDEPENDENT AUDITORS' REPORT ON SCHEDULE AND CONSENT

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 28, 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.

KPMG LLP

Los Angeles, California
May 31, 1999