UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from ______ to ______

Commission File Number 001-14429

SKECHERS U.S.A., INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**95-4376145** **(I.R.S. Employer Identification No.)**
228 Manhattan Beach Blvd., Manhattan Beach, California **(Address of Principal Executive Offices)**	**90266** **(Zip Code)**

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

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

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

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

None
(Title of Class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T(§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

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

As of June 30, 2016, the aggregate market value of the voting and non-voting Class A and Class B Common Stock held by non-affiliates of the Registrant was approximately $4.0 billion based upon the closing price of $29.72 of the Class A Common Stock on the New York Stock Exchange on such date.

The number of shares of Class A Common Stock outstanding as of February 15, 2017: 133,771,430.

The number of shares of Class B Common Stock outstanding as of February 15, 2017: 24,545,188.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement issued in connection with the 2017 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
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FOR THE YEAR ENDED DECEMBER 31, 2016

This annual report includes our trademarks including Skechers®, Skechers Performance™, Skechers GOrun®, Skechers GOwalk®, You by Skechers™, ®, ®, ®, Skechers Cali™, Relaxed Fit®, Skecher Street™, D'Lites®, Skechers Memory Foam™, Skech-Air®, BOBS®, Energy Lights™, Hot Lights® and Twinkle Toes®, each of which is our property. This report contains additional trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements with regards to future revenue, projected 2017 results, earnings, spending, margins, cash flow, orders, expected timing of shipment of products, inventory levels, future growth or success in specific countries, categories or market sectors, continued or expected distribution to specific retailers, liquidity, capital resources and market risk, strategies and objectives. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or simply state future results, performance or achievements, and can be identified by the use of forward-looking language such as “believe,” “anticipate,” “expect,” “estimate,” “intend,” “plan,” “project,” “will be,” “will continue,” “will result,” “could,” “may,” “might,” or any variations of such words with similar meanings. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected in forward-looking statements, and reported results shall not be considered an indication of our company’s future performance. Factors that might cause or contribute to such differences include:

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

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely impact our business, financial condition and results of operations. Moreover, we operate in a very competitive and rapidly changing environment, and new risk factors emerge from time to time. We cannot predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these inherent and changing risks and uncertainties, investors should not place undue reliance on forward-looking statements, which reflect our opinions only as of the date of this annual report, as a prediction of actual results. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document, except as otherwise required by reporting requirements of applicable federal and states securities laws.

PART I

ITEM 1. BUSINESS

We were incorporated in California in 1992 and reincorporated in Delaware in 1999. Throughout this annual report, we refer to Skechers U.S.A., Inc., a Delaware corporation, its consolidated subsidiaries and certain variable interest entities ("VIE's") of which it is the primary beneficiary, as "we," "us," "our," "our Company" and "Skechers" unless otherwise indicated. Our internet address is www.skechers.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Form 3's, 4's and 5's filed on behalf of directors, officers and 10% stockholders, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on our corporate website, www.skx.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission ("SEC"). You can learn more about us by reviewing such filings at www.skx.com or at the SEC's website at www.sec.gov.

GENERAL

We design and market Skechers-branded lifestyle footwear for men, women and children, and performance footwear for men and women under the Skechers GO brand name. Our footwear reflects a combination of style, comfort, quality and value that appeals to a broad range of consumers. Our brands are sold through department and specialty stores, athletic and independent retailers, boutiques and internet retailers. In addition to wholesale distribution, our footwear is available at our e-commerce websites and our own retail stores. As of February 1, 2017, we owned and operated 117 concept stores, 163 factory outlet stores and 134 warehouse outlet stores in the United States, and 101 concept stores, 51 factory outlet stores, and 5 warehouse outlet stores internationally. Our objective is to profitably grow our operations worldwide while leveraging our recognizable Skechers brand through our strong product lines, innovative advertising and diversified distribution channels.

We seek to offer consumers a vast array of stylish and comfortable footwear that satisfies their active, casual, dress casual and athletic footwear needs. Our core consumers are style-conscious men and women attracted to our relevant brand image, fashion-forward designs and affordable product, as well as athletes and fitness enthusiasts attracted to our performance footwear. Many of our best-selling and core styles are also developed for children with colors and materials that reflect a playful image appropriate for this demographic.

We believe that brand recognition is an important element for success in the footwear business. We have aggressively marketed our brands through comprehensive marketing campaigns for men, women and children. During 2016, our Skechers brand was supported by print, television, digital and outdoor campaigns for men and women; animated and live action kids' television campaigns featuring our own action heroes and characters; marathons and other events for Skechers Performance and BOBS from Skechers divisions; and print, television, online and outdoor campaigns featuring our brand ambassadors and endorsees. These endorsees included globally-known recording artists Demi Lovato, Ringo Starr and Meghan Trainor; sports legends Sugar Ray Leonard, Pete Rose, Joe Montana, and Ozzie Smith; and television personalities and actresses Brooke Burke-Charvet and Kelly Brook. For the Skechers Performance Division, we also had Olympians Meb, Kara Goucher, and Matt Kuchar; and professional golfers Belen Mozo, Billy Andrade and Colin Montgomerie.

Since 1992, when we introduced our first line, Skechers USA Sport Utility Footwear, we have expanded our product offering and grown our net sales while substantially increasing the breadth and penetration of our account base. Our men's, women's and children's product lines benefit from the Skechers reputation for styling, quality, comfort, innovation and affordability. Our Performance lines benefit from our marketing, product development, manufacturing support, and management expertise. To promote innovation and brand relevance, we manage our product lines separately by utilizing dedicated sales and design teams. Our product lines share back office services in order to limit our operating expenses and fully utilize our management's vast experience in the footwear industry.

SKECHERS LINES

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

Lifestyle Brands

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

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

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

- Our lightweight sport athletic product is designed with comfort and flexibility in mind. Careful attention is devoted to the cushioning, weight, design and construction by using innovative materials and technologies. Select styles include knit uppers, the Skechers Burst midsole and the Skech-Air outsole. Designed as a versatile, trend-right athletic shoe suitable for all-day wear, the product line features styles in both bright and classic athletic colors.
- Classic Skechers styles are core-proven looks that continue to be strong performers. With all-day comfort and durable rubber tread, these shoes are intended to be a mainstay of any footwear collection. Many of the designs are in white, black and natural shades, with some athletic accents. The uppers are designed in leather, suede and nubuck.
- Our sport sandals and booties are primarily designed from existing Skechers Sport outsoles and may include many of the same sport features as our sneakers with the addition of new technologies geared toward making comfortable seasonal footwear.
- Retro and fashion styles feature throwback fashionable profiles with sport-inspired features and trend-right silhouettes. At the forefront is the D'Lites® collection with iconic Skechers sneaker looks updated with contemporary Skechers Air-Cooled Memory Foam™ insoles for total comfort.

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

Skechers Originals. This fashionable sport line is known for its retro profiles and includes cool sneakers with bold colors, prints and metallics, which all contribute to the collection's throwback vibe. Select Skechers Originals styles are designed with a hidden heel for an added boost in height. This line is intended to appeal to juniors.

BOBS from Skechers. At the core of the BOBS from Skechers line is its vast collection of colorful, playful as well as basic espadrilles. The line now also includes wedges, vulcanized looks and comfortable faux fur styles for home. Many styles also include Skechers Memory Foam™.

- The BOBS classic espadrille collection is designed in basic colors with canvas, tweed, crochet and boiled wool uppers, suede and patterned fabrics. We also have a collection with dog and cat prints for our BOBS for Dogs charitable offering.
- BOBS' vulcanized and sport looks have a very youthful and California lifestyle appeal. Primarily designed with canvas uppers but also jersey fabrics, the line features both classic retro looks and fresh colors and materials for a relevant style.

For each pair of specially packaged BOBS from Skechers sold in the United States from September 1, 2015 through August 31, 2018, twenty-five cents is donated to Best Friends to help save the lives of dogs and cats in America's shelters. Skechers has committed to donating at least $3.0 million dollars to Best Friends Animal Society for the promotion. Skechers also continues to donate new shoes to children in need through the BOBS program for which more than 14 million pairs of new kids' shoes have been donated, including one million pairs in 2016. The charitable shoes are primarily donated to charity partner K.I.D.S./Fashion, which then donates the shoes to various reputable charity organizations in the United States and around the world.

Mark Nason. Inspired by 1970's rock and roll, the Mark Nason Collection originally started in Italy with an exotic offering of boots and accessories. The high-end collection has evolved into an expanded offering of dress, casual and active styles for style-conscious men, with many featuring Premium Relaxed Fit construction and Memory Foam Lux insoles for enhanced comfort. Categories in the Mark Nason Collection include Mark Nason Skechers, a low-profile collection of casuals for everyday wear; Mark Nason Los Angeles, casual sneakers for the active male; and Mark Nason Dress, dress shoes crafted with high-quality leathers and exquisite detailing.

Performance Brands

Skechers Performance. Skechers Performance is a collection of technical footwear designed with a focus on a specific activity to maximize performance and promote natural motion. Developed by the Skechers Performance Division, the footwear utilizes the latest advancements in materials and innovative design, including ultra-lightweight Resalyte or the latest 5GEN midsole compounds for comfort and an outsole that delivers responsive feedback. Limited edition packs with Skechers GOdri all-weather protection or Skechers Nite Owl glow-in-the-dark technology are featured across multiple product lines.

- ***Skechers GOrun.*** Skechers GOrun is a collection of lightweight, flexible running shoes that feature a midfoot strike design for efficient running. Skechers GOrun Ride features similar designs to their GOrun counterparts, with enhanced cushioning for elevated comfort and support. Skechers GOrun Forza offers extra stability on long runs. The Skechers GOmeb collection includes the high-performance racing and training shoes worn by elite marathon runner Meb. These flagship lines, as well as other Skechers GOrun products, are marketed to serious runners and recreational runners alike, and are available in running stores as well as other retailers.
- ***Skechers GOwalk.*** Skechers GOwalk is designed for walking and casual wear, and offers performance features in a comfortable casual slip-on or lace-up sneaker. The product line features a lightweight and flexible design to promote natural foot movement when walking as well as more advanced performance technologies including a high-rebound GogaMax insole, comfortable 5GEN cushioning and Memory Form Fit for a custom-fit experience. Skechers GOwalk Sport adds knitted upper sneaker styles to the collection. Skechers GO FLEX Walk features a unique articulated, segmented flexible outsole that is designed to move with you. Skechers on-the-GO footwear fuses iconic designs and premium materials with Skechers Performance technologies for comfort and style.
- ***Skechers GOtrain.*** Skechers GOtrain is designed for the gym and features a wider forefoot and extended outriggers for maximum stability and control at lateral and medial strike points. This shoe is an all-encompassing trainer that meets the need of intense and rigorous workouts.
- ***Skechers GOtrail.*** The Skechers GOtrail collection features the performance materials and innovations found in our running shoes with rugged designs that can protect against impact during all-terrain runs.
- ***Skechers GO GOLF.*** Skechers GO GOLF is designed for the golf course and offers a zero heel drop design, which keeps feet in a neutral position that is low to the ground to promote a solid foundation while playing golf. A grip outsole helps with traction control and 5GEN cushioning delivers comfort. Styles in the Skechers GO GOLF Pro line, worn by PGA golfer Matt Kuchar and a roster of other golf pros, also offers H2GO Shield waterproof protection and features replaceable softspikes on the outsole.

Skechers Kids

The Skechers Kids line includes: (i) Skechers Kids, which is a range of infants', toddlers', boys' and girls' boots, shoes, high-tops, sneakers and sandals, (ii) Skechers' athletic-inspired sneakers with Memory Foam, (iii) Twinkle Toes and Twinkle Wishes by Skechers, (iv) Skechers Super Z-Strap, (v) Elastika by Skechers, (vi) Lighted footwear, (vii) Mega Flex, and (viii) Game Kicks.

- The Skechers Kids line is inspired by our many adult styles and includes embellishments or adornments such as fresh colors and fabrics. Some of these styles are also adapted for toddlers with softer, more pliable outsoles and for infants with soft, leather-sole crib shoes. The line's Fashion Hi-Tops subcategory offers trend-forward high-top looks designed to appeal to fashion-conscious young girls.
- Skechers' athletic-inspired collection includes Memory Foam sneakers designed with many of the same meshes, knits and weaves as the company's adult styles such as Skechers Sport in bright colors and patterns, Skechers GOrun and Skech-Air athletic sneakers which have a unique visible air-cushioned outsole and a gel-infused memory foam insole. The collection is designed to offer the latest comfort innovations and appeal both to younger kids as well as tweens transitioning to adult shoes.
- Twinkle Toes by Skechers is a line of girls' sneakers and boots that feature bejeweled toe caps and brightly designed uppers. Some styles also include lights. The product line is marketed with the character, Twinkle Toes. Twinkle Wishes by Skechers adds a magical light and sound feature that is activated when the toes are tapped together.
- Skechers Super Z-Strap is a line of athletic-styled sneakers with an easy "z"-shaped closure system. The product line is marketed with the character, Z-Strap.
- Elastika by Skechers is a line of girls' sneakers with bungee closures. The product line is marketed with the character, Elastika.
- Skechers' lighted collection for boys and girls includes the categories of S-Lights, Hot Lights by Skechers and Energy Lights by Skechers. S-Lights combine patterns of lights on the outsoles and sides of the shoes, while Hot Lights feature lights on the front of the toe to simulate headlights as well as lights on other areas of the shoes. Energy Lights by Skechers is a classic high-top or low-top sneaker with a rechargeable lighted outsole that features seven colors and four light sequences.
- Mega Flex is a line of athletic sneakers for boys based on a robot character. Styles include fun embellishments like heel springs or an articulated bladed outsole in the Mega Blades collection.
- Game Kicks for boys and girls are innovative sneakers with a built-in interactive sound and light memory game that kids can play any time they're wearing the shoes. Some styles include a remote control operating system.

Skechers Kids lines include shoes that are designed as "takedowns" of their adult counterparts, allowing the younger consumers the opportunity to wear the same popular styles as their older siblings and schoolmates. This "takedown" strategy maintains the product's integrity by offering premium leathers, hardware and outsoles without the costs involved in designing and developing new products. In addition, we adapt current fashions from our men's and women's lines by modifying designs and choosing colors and materials that are more suitable for the playful image that we have established in the children's footwear market. Each Skechers Kids line is marketed and packaged separately with a distinct shoe box.

Skechers Work

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

PRODUCT DESIGN AND DEVELOPMENT

Our principal goal in product design is to generate fresh and innovative footwear in all of our product lines. Targeted to the active, youthful and style-savvy, we design our lifestyle line to be comfortable, fashionable and marketable to the 12- to 24-year-old consumer, with broader appeal to 5- to 50-year olds, and an exclusive selection for infants and toddlers. Designed by the Skechers Performance Division, our performance products are for professional and recreational athletes who want a technical fitness shoe.

We believe that our products' success is related to our ability to recognize trends in the footwear markets and to design products that anticipate and accommodate consumers' ever-evolving preferences. We are able to quickly translate the latest fashion trends into stylish, quality footwear at a reasonable price by analyzing and interpreting current and emerging lifestyle trends. Lifestyle trend information is compiled and analyzed by our designers in various ways, including reviewing and analyzing pop culture, clothing, and trend-setting media; traveling to domestic and international fashion markets to identify and confirm current trends; consulting with our retail and e-commerce customers for information on current retail selling trends; participating in major footwear trade shows to stay abreast of popular brands, fashions and styles; and subscribing to various fashion and color information services. In addition, a key component of our design philosophy is to continually reinterpret and develop our successful styles in our brands' images.

The footwear design process typically begins about nine months before the start of a season. Our products are designed and developed primarily by our in-house design staff. To promote innovation and brand relevance, we utilize dedicated design teams, who report to our senior design executives and focus on each of the men's, women's and children's categories. In addition, we utilize outside design firms on an item-specific basis to supplement our internal design efforts. The design process is extremely collaborative, as members of the design staff frequently meet with the heads of retail, merchandising, sales, production and sourcing to further refine our products to meet the particular needs of the target market.

After a design team arrives at a consensus regarding the fashion themes for the coming season, the designers then translate these themes into our products. These interpretations include variations in product color, material structure and embellishments, which are arrived at after close consultation with our production department. Prototype blueprints and specifications are created and forwarded to our manufacturers for design prototypes. The design prototypes are then sent back to our design teams. Our major retail customers may also review these new design concepts. Customer input not only allows us to measure consumer reaction to the latest designs, but also affords us an opportunity to foster deeper and more collaborative relationships with our customers. We also occasionally order limited production runs that may initially be tested in our concept stores. By working closely with store personnel, we obtain customer feedback that often influences product design and development. Our design teams can easily and quickly modify and refine a design based on customer input. Generally, the production process can take six to nine months from design concept to commercialization.

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

SOURCING

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

When possible, we seek to use manufacturers that have previously produced our footwear, which we believe enhances continuity and quality while controlling production costs. We source product for styles that account for a significant percentage of our net sales from at least five different manufacturers. During 2016, five of our contract manufacturers accounted for approximately 51.0% of total purchases. One manufacturer accounted for 22.9%, and another accounted for 10.1% of our total purchases. To date, we have not experienced difficulty in obtaining manufacturing services or with the availability of raw materials.

We finance our production activities in part through the use of interest-bearing open purchase arrangements with certain of our Asian manufacturers. These facilities currently bear interest at a rate between 0% and 0.5% for 30- to 60-day financing, depending on the factory. We believe that the use of these arrangements affords us additional liquidity and flexibility. We do not have any long-term contracts with any of our manufacturers. However, we have long-standing relationships with many of our manufacturers and believe our relationships to be good.

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

Production Oversight. To safeguard product quality and consistency, we oversee the key aspects of production from initial prototype manufacture, through initial production runs, to final manufacture. Monitoring of all production is performed in the United States by our in-house production department and in Asia through a 359-person staff working from our offices in China and Vietnam. We believe that our Asian presence allows us to negotiate supplier and manufacturer arrangements more effectively, decrease product turnaround time, and ensure timely delivery of finished footwear. In addition, we require our manufacturers to certify that neither convicted, forced nor indentured labor (as defined under U.S. law), nor child labor (as defined by law in the manufacturer's country) is used in the production process, that compensation will be paid according to local law, and that the factory is in compliance with local safety regulations.

Quality Control. We believe that quality control is an important and effective means of maintaining the quality and reputation of our products. Our quality control program is designed to ensure that not only finished goods meet our established design specifications, but also that all goods bearing our trademarks meet our standards for quality. Our quality control personnel located in China and Vietnam perform an array of inspection procedures at various stages of the production process, including examination and testing of prototypes of key raw materials prior to manufacture, samples and materials at various stages of production and final products prior to shipment. Our employees are on-site at each of our major manufacturers to oversee production. For some of our lower volume manufacturers, our staff is on-site during significant production runs, or we will perform unannounced visits to their manufacturing sites to further monitor compliance with our manufacturing specifications.

ADVERTISING AND MARKETING

With a marketing philosophy of "Unseen, Untold, Unsold," we take a targeted approach to marketing to drive traffic, build brand recognition and properly position our diverse lines within the marketplace. Senior management is directly involved in shaping our image and the conception, development and implementation of our advertising and marketing activities. Our marketing plan has a multi-pronged approach: traditional print and television advertising, supported by online, outdoor, trend-influenced marketing, public relations, social media, promotions, events and in-store. In addition, we utilize celebrity endorsers in some of our advertisements. We also believe our websites and trade shows are effective marketing tools to both consumers and wholesale accounts. We have historically budgeted advertising as a percentage of projected net sales.

The majority of our advertising is conceptualized by our in-house design team. We believe that our advertising strategies, methods and creative campaigns are directly related to our success. Through our lifestyle, performance-inspired and image-driven advertising, we generally seek to build and increase brand awareness by linking the Skechers brand to youthful attitudes for our lifestyle lines, and technology with runners and athletes for our performance lines. Our campaigns are designed to provide merchandise flexibility and to facilitate the brand's direction.

To further build brand awareness and influence consumer spending, we have selectively signed endorsement agreements with celebrities whom we believe will reach new markets. In 2016, our Skechers lifestyle endorsees included Demi Lovato, Meghan Trainor, Brooke Burke-Charvet, Kelly Brook, Joe Montana, Sugar Ray Leonard, Ozzie Smith, and Ringo Starr. Our Skechers Performance Division 2016 endorsees included elite runner and Olympic medalist Meb and elite runner Kara Goucher, and professional golfers Matt Kuchar (who also medaled at the 2016 Olympics), Belen Mozo, Brooke Henderson, Billy Andrade and Colin Montgomerie. Additionally, several international markets signed local ambassadors for marketing campaigns. In 2016, these ambassadors included Korean pop groups for numerous countries in Asia and local celebrities and athletes in Europe. From time to time, we may sign other celebrities to endorse our brand name and image in order to strategically market our products among specific consumer groups in the future.

With a targeted approach, our print ads appear in popular fashion, lifestyle and pop culture publications, including *Runner's World, Seventeen, Men's Fitness, People, Us Weekly, and OK!,* among others. Our advertisements also appear in international magazines around the world.

Our television commercials are produced both in-house and through producers that we have utilized in the past who are familiar with our brands. In 2016, we developed commercials for men, women and children for our Skechers brands, including our animated spots for kids featuring our own action heroes, as well as live action commercials that appeal to older kids and tweens. We also have many commercials for our performance lines that feature elite athletes, and for our lifestyle lines that feature musicians, actors and retired athletes. We have found these to be cost-effective ways to advertise on key national and cable programming during high-selling seasons. In 2016, many of our television commercials were translated into multiple languages and aired in numerous markets around the world.

Outdoor. In an effort to reach consumers where they shop and in high-traffic areas as they travel to and from work, at times we execute outdoor campaigns that may include mall and telephone kiosks, billboards, transportation systems and airports, and the covering of large stadiums and buildings around the world. In many markets these now include LED billboards that broadcast our commercials. In addition, we advertised on perimeter boards at soccer matches and professional sporting events in several European countries, Canada and Mexico. We believe these are effective and efficient ways to reach a broad range of consumers and leave a lasting impression for our brands.

Public Relations/Trend-Influenced Marketing. Our public relations objectives are to accurately position Skechers as a leading footwear brand within the business, general news and trade publications as well as to secure product placement in key fashion and lifestyle magazines and television shows, and place our footwear on the feet of trend-setting celebrities and their families. We have been featured on leading business shows with interviews of our executives discussing the Company's business strategy and position within the footwear market. We have amassed an array of prominent product placements in leading fashion, lifestyle, sports and pop culture magazines and websites. Additionally, we have partnered with influencers who have both appeared at events and posted on their social media channels about our footwear.

Social Media. With the goal of engaging with consumers, showcasing our product in relatable settings and relaying the latest news, we have built communities on Facebook, Twitter, Instagram, Pinterest and Snapchat in the United States and in countries around the world where our product is sold. The social platforms are divided into Skechers and Skechers Performance sites, as well as a BOBS page to feature our charitable footwear line. The online communities also connect consumers around the world, allowing an easy glimpse into trends and events in other countries. Additionally, many countries also utilize platforms specific to their market, such as Weibo in China.

Promotions and Events. By applying creative sales techniques via a broad spectrum of media, our marketing team seeks to build brand recognition and drive traffic to Skechers retail stores, websites and our retail partners' locations. Skechers' promotional strategies have encompassed in-store specials, charity events, product tie-ins and giveaways and collaborations with national retailers and radio stations. In 2016, we appeared at walks and at numerous marathons in Boston, New York, London, Paris, Santiago and other cities with Skechers Performance-branded booths to allow runners the ability to try on and often buy our products. In 2016, the Skechers Performance Division was the footwear and apparel sponsor for the Houston Marathon, the title sponsor of The Skechers Performance Los Angeles Marathon, and the footwear sponsor for Ironman across Europe. Our products were made available to consumers directly or through key accounts at many of these events. In addition, we partnered with key accounts for BOBS footwear donation events in cities throughout the United States, Puerto Rico and Canada, building both our relationships with these accounts, as well as with the community as we donated footwear to children in need. As part of our BOBS for Dogs charity program we partnered with Best Friends Animal Society, an organization dedicated to saving the lives of dogs and cats, in Strut your Mutt Dog donation events across the country.

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

Our visual merchandising coordinators ("VMC's") work with our sales force and directly with our customers to ensure better sell-through at the retail level by generating greater consumer awareness through Skechers brand displays. Our VMC's communicate with and visit our wholesale customers on a regular basis to aid in proper display of our merchandise. They also run in-store promotions to enhance the sale of Skechers footwear and create excitement surrounding the Skechers brand. We believe that these efforts help stimulate impulse sales and repeat purchases.

Trade Shows. To showcase our diverse products to footwear buyers in the United States and Europe and to distributors around the world, we regularly exhibit at leading trade shows. Along with specialty trade shows, we exhibit at FFANY, Platform, The Licensing Show and Outdoor Retailer in the United States; GDS, MICAM, and ISPO in Europe; and many other international shows. Our dynamic, state-of-the-art trade show exhibits showcase our latest product offerings in a setting reflective of each of our brands. By investing in innovative displays and individual rooms showcasing each line, our sales force can present a sales plan for each line and buyers are able to truly understand the breadth and depth of our offerings, thereby optimizing commitments and sales at the retail level.

Digital. In 2016, we launched marketing campaigns on YouTube, developed a performance branded website for the Skechers Performance Los Angeles Marathon, and launched digital campaigns in many international markets to coincide with key selling time periods. We promote and sell our products through our e-commerce sites in the United States, Chile, Germany, the United Kingdom, and China, among other countries, as well as through non-ecommerce sites in many other countries. Our websites are a venue for dialog and feedback from customers about our products, which enhances the Skechers brand experience while driving sales through all our retail channels.

PRODUCT DISTRIBUTION CHANNELS

We have three reportable segments: domestic wholesale sales, international wholesale sales, and retail sales, which includes e-commerce sales. In the United States, our products are available through a network of wholesale customers comprised of department, athletic and specialty stores and online retailers. Internationally, our products are available through wholesale customers in more than 170 countries and territories via our global network of distributors, in addition to our subsidiaries in Asia, Europe, Canada, Central America and South America. Skechers owns and operates retail stores both domestically and internationally through three integrated retail formats—concept, factory outlet and warehouse outlet stores. Each of these channels serves an integral function in the global distribution of our products. In addition, 15 distributors and 45 licensees have opened and operate 490 distributor-owned or -licensed Skechers retail stores and 739 licensee-owned Skechers retail stores, respectively, in over 80 countries as of December 31, 2016.

Domestic Wholesale. We distribute our footwear through the following domestic wholesale distribution channels: department stores, specialty stores, athletic specialty shoe stores, independent retailers, and internet retailers. While department stores and specialty retailers are the largest distribution channels, we believe that we appeal to a variety of wholesale customers, many of whom may operate stores within the same retail location due to our distinct product lines, variety of styles and the price criteria of their specific customers. Management has a clearly defined growth strategy for each of our channels of distribution. An integral component of our strategy is to offer our accounts the highest level of customer service so that our products will be fully represented in existing and new customer retail locations.

In an effort to provide knowledgeable and personalized service to our wholesale customers, the sales force is segregated by product line, each of which is headed by a vice president or national sales manager. Reporting to each sales manager are knowledgeable account executives and territory managers. The vice presidents and national sales managers report to our senior vice president of sales. All of our vice presidents and national sales managers are compensated on a salary basis, while our account executives and territory managers are compensated on a commission basis. None of our domestic sales personnel sells competing products.

We believe that we have developed a loyal account base through exceptional customer service. We believe that our close relationships with these accounts help us to maximize their retail sell-through. Our marketing teams work with our wholesale customers to ensure that our merchandise and marketing materials are properly presented. Sales executives and merchandise personnel work closely with accounts to ensure that appropriate styles are purchased for specific accounts and for specific stores within those accounts, as well as to ensure that appropriate inventory levels are carried at each store. Such information is then utilized to help develop sales projections and determine the product needs of our wholesale customers. The value-added services we provide our wholesale customers help us maintain strong relationships with our existing wholesale customers and attract potential new wholesale customers.

Retail stores and e-commerce. We pursue our retail store strategy through our three integrated retail formats: concept stores, factory outlet stores and warehouse outlet stores. Our three store formats enable us to promote the full Skechers product offering in an attractive environment that appeals to a broad group of consumers. In addition, most of our retail stores are profitable and have a positive effect on our operating results. In 2015, we upgraded the technologies in many of our stores, providing visibility to our merchandise in other stores and at our distribution center in order to better serve our customers with an omni-channel approach to sales. We periodically review all of our stores for impairment. We prepare a summary of cash flows for each of our retail stores to assess potential impairment of the fixed assets and leasehold improvements. If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. In addition, we base the useful lives and related amortization or depreciation expense on our estimate of the period that the assets will generate revenues or otherwise be used by us. As of February 1, 2017, we owned and operated 117 concept stores, 163 factory outlet stores and 134 warehouse outlet stores in the United States, and 101 concept stores, 51 factory outlet stores, and 5 warehouse outlet stores internationally. During 2016, we took over the operations of 3 international concept stores and 11 international outlet stores from our distributor in South Korea. During 2017, we plan to open 70 to 90 new stores.

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

- ***Concept Stores***

  Our concept stores are located at marquee street locations, major tourist areas or in key shopping malls in metropolitan cities. Our concept stores have a threefold purpose in our operating strategy. First, concept stores serve as a showcase for a wide range of our product offering for the current season, as we estimate that our average wholesale customer carries no more than 5% of the complete Skechers line in any one location. Our concept stores showcase our products in an attractive, easy-to-shop open-floor setting, providing the customer with the complete Skechers story. Second, retail locations are generally chosen to generate maximum marketing value for the Skechers brand name through signage, store front presentation and interior design. Domestic locations include concept stores at Times Square (with a second location opened in 2015), 5th Avenue, Union Square, Westfield World Trade Center, and 34th Street, in New York; Powell Street in San Francisco: Hollywood and Highland in Hollywood; Santa Monica's Third Street Promenade; Ala Moana Center in Hawaii; and Las Vegas' Grand Canal Shoppes at the Venetian and Fashion Show Mall. International locations include Westfield London and Westfield Stratford in London; Buchanan Street in Glasgow; Princes Street in Edinburgh; Toronto's Eaton Centre; Vancouver's Pacific Centre; the Shinsaibashi shopping district of Osaka and Harajuku in Tokyo. The stores are typically designed to create a distinctive Skechers look and feel, and enhance customer association of the Skechers brand name with current youthful lifestyle trends and styles. Third, the concept stores serve as marketing and product testing venues. We believe that product sell-through information and rapid customer feedback derived from our concept stores enables our design, sales, merchandising and production staff to respond to market changes and new product introductions. Such responses serve to augment sales and limit our inventory markdowns and customer returns and allowances.

  The typical Skechers concept store is approximately 2,400 square feet, although in certain markets we have opened concept stores as large as 7,800 square feet or as small as 800 square feet. When deciding where to open concept stores, we identify top geographic markets in the larger metropolitan cities in North America, Europe, Central America, South America and Asia. When selecting a specific site, we evaluate the proposed sites' traffic pattern, co-tenancies, sales volume of neighboring concept stores, lease economics and other factors considered important within the specific location. If we are considering opening a concept store in a shopping mall, our strategy is to obtain space as centrally located as possible in the mall, where we expect foot traffic to be most concentrated. We believe that the strength of the Skechers brand name has enabled us to negotiate more favorable terms with shopping malls that want us to open up concept stores to attract customer traffic to their venues.

- ***Factory Outlet Stores***

  Our factory outlet stores are generally located in manufacturers' direct outlet centers throughout the United States. In addition, we have 51 international factory outlet stores. Our factory outlet stores provide opportunities for us to sell discontinued and excess merchandise, thereby reducing the need to sell such merchandise to discounters at excessively low prices and potentially compromise the Skechers brand image. Skechers' factory outlet stores range in size from approximately 1,400 to 9,000 square feet. Unlike our warehouse outlet stores, inventory in these stores is supplemented by certain first-line styles sold at full retail price points.

- ***Warehouse Outlet Stores***

  Our free-standing and inline warehouse outlet stores, which are primarily located throughout the United States and Canada, enable us to liquidate excess merchandise, discontinued lines and odd-size inventory in a cost-efficient manner. Skechers' warehouse outlet stores are typically larger than our factory outlet stores and typically range in size from approximately 4,000 to 31,000 square feet. Our warehouse outlet stores enable us to sell discontinued and excess merchandise that would otherwise typically be sold to discounters at excessively low prices, which could otherwise compromise the Skechers brand image. We seek to open our warehouse outlet stores in areas that are in close proximity to our concept stores to facilitate the timely transfer of inventory that we want to liquidate as soon as practicable.

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

	Number of Store Locations December 31, 2015	Opened during 2016	Closed during 2016	Number of Store Locations December 31, 2016
Domestic stores				
Concept	119	4	(6)	117
Factory Outlet	155	8	—	163
Warehouse Outlet	116	18	(1)	133
Domestic stores total	390	30	(7)	413
International stores				
Concept	81	21	(1)	101
Factory Outlet	41	10	—	51
Warehouse Outlet	5	—	—	5
International stores total	127	31	(1)	157
Joint venture stores				
China Concept	59	12	(3)	68
China Factory Outlet	20	15	(7)	28
Hong Kong Concept	29	9	(1)	37
Hong Kong Outlet	—	3	—	3
India Concept	29	6	(1)	34
India Outlet	1	3	(3)	1
Israel Concept	—	6	—	6
South Korea Concept	—	3	—	3
South Korea Outlet	—	11	—	11
South East Asia Concept	21	2	(4)	19
South East Asia Outlet	—	2	—	2
Joint venture stores total	159	72	(19)	212
Total domestic, international and joint venture stores	676	133	(27)	782

International Wholesale. Our products are sold in more than 170 countries and territories throughout the world. We generate revenues from outside the United States from three principal sources: (i) direct sales to department stores and specialty retail stores through our joint ventures in Asia, as well as through our subsidiaries in the Americas, Europe, and Japan; (ii) sales to foreign distributors who distribute our footwear to department stores and specialty retail stores in select countries and territories across Asia, South America, Africa, the Middle East and Australia; and (iii) to a lesser extent, royalties from licensees who manufacture and distribute our non-footwear products outside the United States.

We believe that international distribution of our products represents a significant opportunity to increase net sales and profits. We intend to further increase our share of the international footwear market by heightening our marketing in those countries in which we currently have a presence through our international advertising campaigns, which are designed to establish Skechers as a global brand synonymous with trend-right casual shoes.

- ***International Subsidiaries***

Europe

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

To accommodate our European subsidiaries' operations, we operate a distribution center in Liege, Belgium. During 2015, we completed the third phase of automation upgrades of our European Distribution Center equipment, allowing us to more efficiently receive and ship product to our subsidiaries and retail stores throughout Europe. In 2016, we completed the fourth and fifth expansion phases, bringing our European facility to approximately 1.3 million square-feet. The additional space that we added will consolidate off-site storage facilities into a single on-site location that will further increase efficiencies and offer storage capacity of up to four million pairs of shoes.

Canada

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

South America and Central America

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

Japan

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

China and Hong Kong

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

Malaysia and Singapore

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

India

We have a 51% interest in Skechers South Asia Private Limited and Skechers Retail India Private Limited, which are both joint ventures, that operate and generate net sales in India. Under the joint venture agreements, the joint venture partners contribute capital in proportion to their respective ownership interests. We have retail stores in key locations such as Bangalore, Mumbai and New Delhi. These joint ventures are consolidated in our financial statements.

Israel

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

South Korea

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

- ***Distributors and Licensees***

Where we do not sell directly through our international subsidiaries and joint ventures, our footwear is distributed through an extensive network of more than 23 distributors who sell our products to department, athletic and specialty stores in more than 170 countries around the world. As of December 31, 2016, we also had agreements with 15 of these distributors and 45 licensees regarding 490 distributor-owned or -licensed Skechers retail stores and 739 licensee-owned Skechers retail stores, respectively, that are open in over 80 countries. Our distributors and licensees own and operate the following retail stores:

	Number of Store Locations December 31, 2015	Opened during 2016	Closed during 2016	Number of Store Locations December 31, 2016
Distributor and licensee stores				
Africa Concept	31	8	(2)	37
Asia Concept	355	269	(23)	601
Asia Factory Outlet	71	99	(13)	157
Australasia Concept	30	18	—	48
Australasia Outlet	11	2	—	13
Central America Concept	3	2	—	5
Europe Concept	94	48	—	142
Europe Factory Outlet	5	3	—	8
Middle East Concept	59	65	(6)	118
Middle East Factory Outlet	3	1	—	4
North America Concept	53	5	—	58
North America Factory Outlet	14	2	—	16
South America Concept	20	4	(2)	22
Total distributor and licensee stores	749	526	(46)	1,229

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

For disclosure of financial information about geographic areas and segment information for our three reportable segments–domestic wholesale sales, international wholesale sales, and retail sales, see Note 17 – Segment and Geographic Reporting in the consolidated financial statements included in this annual report.

LICENSING

We believe that selective licensing of the Skechers brand name and our product line names to manufacturers may broaden and enhance the individual brands without requiring significant capital investments or additional incremental operating expenses. Our multiple product lines plus additional subcategories present many potential licensing opportunities on terms with licensees that we believe will provide more effective manufacturing, distribution or marketing of non-footwear products. We also believe that the reputation of Skechers and its history in launching brands has also enabled us to partner with reputable non-footwear brands to design and market their footwear.

As of February 1, 2017, we had 27 active domestic and international licensing agreements in which we are the licensor. These include Skechers-branded bags, backpacks and lunch boxes, belts, wallets and headwear, socks, eyewear, fitness, yoga and running accessories, work accessories and watches; Skechers Sport apparel; BOBS from Skechers apparel; and Twinkle Toes dolls, toys backpacks, lunchboxes, do-it-yourself fashion kits and fashion accessories. We have international licensing agreements for the design and distribution of men's, women's and kids' apparel in Chile, Israel, the Philippines, the United Kingdom and South Korea; socks in France; apparel, socks, bags, backpacks and luggage in Mexico; bags, backpacks, apparel, watches and accessories in Latin America; and watches in the Philippines.

DISTRIBUTION FACILITIES AND OPERATIONS

We believe that strong distribution support is a critical factor in our operations. Once manufactured, our products are packaged in shoe boxes bearing bar codes that are shipped either: (i) to our approximate 1.8 million square-foot distribution center located in Rancho Belago, California, (ii) to our approximate 1.3 million square-foot European Distribution Center ("EDC") located in Liege, Belgium, (iii) to our company-operated distribution centers or third-party distribution centers in Central America, South America and Asia or (vi) directly from third-party manufacturers to our other international customers and other international third-party distribution centers. Upon receipt at either of the distribution centers, merchandise is inspected and recorded in our management information system and packaged according to customers' orders for delivery. Merchandise is shipped to customers by whatever means each customer requests, which is usually by common carrier. The distribution centers have multi-access docks, enabling us to receive and ship simultaneously, and to pack separate trailers for shipments to different customers at the same time. We have an electronic data interchange system ("EDI system") which is linked to some of our larger customers. This system allows these customers to automatically place orders with us, thereby eliminating the time involved in transmitting and inputting orders, and it includes direct billing and shipping information.

BACKLOG

As of December 31, 2016 our backlog was $1.37 billion, compared to $1.25 billion as of December 31, 2015. Backlog orders are subject to cancellation by customers, as evidenced by order cancellations that we have experienced in the past, due to a difficult U.S. consumer retail market combined with constantly shifting global footwear trends. For a variety of reasons, including changes in the global economy, worldwide customer demand for our products, the timing of shipments, product mix of customer orders, the amount of in-season orders and a shift towards tighter shipment lead times, our backlog may not be a reliable measure of future sales for any succeeding period.

INTELLECTUAL PROPERTY RIGHTS

We own and utilize a variety of trademarks, including the Skechers trademark. We have a significant number of both registrations and pending applications for our trademarks in the United States. In addition, we have trademark registrations and trademark applications in approximately 128 foreign countries. We also have design patents and pending design and utility patent applications in both the United States and approximately 21 foreign countries. We continuously look to increase the number of our patents and trademarks both domestically and internationally, where necessary to protect valuable intellectual property. We regard our trademarks and other intellectual property as valuable assets, and believe that they have significant value in marketing our products. We vigorously protect our trademarks against infringement, including through the use of cease and desist letters, administrative proceedings and lawsuits.

We rely on trademark, patent, copyright and trade secret protection, non-disclosure agreements and licensing arrangements to establish, protect and enforce intellectual property rights in our logos, trade names and in the design of our products. In particular, we believe that our future success will largely depend on our ability to maintain and protect the Skechers trademark and other key trademarks. Despite our efforts to safeguard and maintain our intellectual property rights, we cannot be certain that we will be successful in this regard. Furthermore, we cannot be certain that our trademarks, products and promotional materials or other intellectual property rights do not, or will not, violate the intellectual property rights of others, that our intellectual property would be upheld if challenged, or that we would, in such an event, not be prevented from using our trademarks or other intellectual property rights. Such claims, if proven, could materially and adversely affect our business, financial condition and results of operations. In addition, although any such claims may ultimately prove to be without merit, the necessary management attention and associated legal costs with litigation or other resolution of future claims concerning trademarks and other intellectual property rights could materially and adversely affect our business, financial condition and results of operations. We have sued and have been sued by third parties for infringement of intellectual property. It is our opinion that none of these claims has materially impaired our ability to utilize our intellectual property rights.

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

COMPETITION

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

EMPLOYEES

As of January 31, 2017, we employed approximately 9,800 persons, of whom approximately 4,000 were employed on a full-time basis and approximately 5,800 were employed on a part-time basis, primarily in our retail stores. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are satisfactory.

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

Our Business Could Be Harmed If We Fail To Maintain Proper Inventory Levels.

We place orders with our manufacturers for some of our products prior to the time we receive all of our customers' orders. We do this to minimize purchasing costs, the time necessary to fill customer orders and the risk of non-delivery. We also maintain an inventory of certain products that we anticipate will be in greater demand. Any unanticipated decline in the popularity of Skechers footwear or other unforeseen circumstances may make it difficult for us and our customers to accurately forecast product demand trends, and we may be unable to sell the products we have ordered in advance from manufacturers or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could significantly impair our brand image and have a material adverse effect on our operating results and financial condition. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply the quality products that we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer and distributor relationships, and diminish brand loyalty.

We Face Intense Competition, Including Competition From Companies In The Performance Footwear Market and Those With Significantly Greater Resources Than Ours, And If We Are Unable To Compete Effectively With These Companies, Our Market Share May Decline And Our Business Could Be Harmed.

We face intense competition from other established companies in the footwear industry. Our competitors' product offerings, pricing, costs of production, and advertising and marketing expenditures are highly competitive areas in our business. If we do not adequately and timely anticipate and respond to our competitors, consumer demand for our products may decline significantly. A number of our competitors have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources than we do. Their greater capabilities in these areas may enable them to better withstand periodic downturns in the footwear industry, compete more effectively on the basis of price and production, keep up with rapid changes in footwear technology, and more quickly develop new products. New companies may also enter the markets in which we compete, further increasing competition in the footwear industry. In addition, negative consumer perceptions of our performance features due to our historical reputation as a fashion and lifestyle footwear company may place us at a competitive disadvantage in the performance footwear market. We may not be able to compete successfully in the future, and increased competition may result in price reductions, cost increases, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand our development and marketing of new products, which would materially adversely impact our business, results of operations and financial condition.

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

If any single style or group of similar styles of our footwear were to represent a substantial portion of our net sales, we could be exposed to risk should consumer demand for such style or group of styles decrease in subsequent periods. We attempt to mitigate this risk by offering a broad range of products, and no style comprised over 5% of our gross wholesale sales during 2016 or 2015. However, this may change in the future, and fluctuations in sales of any style representing a significant portion of our future net sales could have a negative impact on our operating results.

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

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

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

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

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

During 2016, 2015 and 2014, our net sales to our five largest customers accounted for approximately 11.3%, 14.6% and 15.7% of total net sales, respectively. No customer accounted for more than 10.0% of our net sales during 2016, 2015 and 2014. No customer accounted for more than 10.0% of trade receivables at December 31, 2016 and 2014. As of December 31, 2015, one customer accounted for 10.6% of trade receivables. Although we have long-term relationships with many of our customers, our customers do not have a contractual obligation to purchase our products and we cannot be certain that we will be able to retain our existing major customers. Furthermore, the retail industry regularly experiences consolidation, contractions and closings which may result in our loss of customers or our inability to collect accounts receivable of major customers. If we lose a major customer, experience a significant decrease in sales to a major customer or are unable to collect the accounts receivable of a major customer, our business could be harmed.

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

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

Our Quarterly Revenues And Operating Results Fluctuate As A Result Of A Variety Of Factors, Including Seasonal Fluctuations In Demand For Footwear, Delivery Date Delays And Potential Fluctuations In Our Estimated Annualized Tax Rate, Which May Result In Volatility Of Our Stock Price.

Our quarterly revenues and operating results have varied significantly in the past and can be expected to fluctuate in the future due to a number of factors, many of which are beyond our control. Our major customers have no obligation to purchase forecasted amounts, may and have canceled orders in the past, and may change delivery schedules or change the mix of products ordered with minimal notice and without penalty. As a result, we may not be able to accurately predict our quarterly sales. In addition, sales of footwear products have historically been somewhat seasonal in nature, with the strongest domestic sales generally occurring in our second and third quarters for the back-to-school selling season. Domestically, back-to-school sales typically ship in June, July and August, and delays in the timing, cancellation, or rescheduling of these customer orders and shipments by our wholesale customers could negatively impact our net sales and results of operations for our second or third quarters. More specifically, the timing of when products are shipped is determined by the delivery schedules set by our wholesale customers, which could cause sales to shift between our second and third quarters. Because our expense levels are partially based on our expectations of future net sales, our expenses may be disproportionately large relative to our revenues, and we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shifts, which could have a material adverse effect on our operating results.

Our annualized tax rate is based on projections of our domestic and international operating results for the year, which we review and revise as necessary at the end of each quarter, and it is highly sensitive to fluctuations in projected international earnings. Any quarterly fluctuations in our annualized tax rate that may occur could have a material impact on our quarterly operating results. As a result of these specific and other general factors, our operating results will likely vary from quarter to quarter, and the results for any particular quarter may not be necessarily indicative of results for the full year. Any shortfall in revenues or net earnings from levels expected by securities analysts and investors could cause a decrease in the trading price of our Class A Common Stock.

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

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

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

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

A significant amount of our foreign earnings are generated in low or zero tax jurisdictions. As a result, our income tax expense has historically been lower than the tax computed at the U.S. statutory income tax rate because we do not provide for U.S. taxes on earnings that we consider to be permanently reinvested in foreign operations. Our future effective tax rates could be unfavorably affected by a number of factors, including but not limited to, changes in the tax rates or the tax rules and regulations, or in the interpretation thereof, in the jurisdictions in which we do business; decreases in the amount of earnings in countries with low statutory tax rates; increases in the amount of earnings in countries with high statutory tax rates; or if we repatriate foreign earnings (or if U.S. tax laws change to tax foreign earnings) for which no provision for U.S. taxes has previously been made. An increase in our effective tax rate could have a material adverse effect on our business, results of operations and financial position.

Our International Sales And Manufacturing Operations Are Subject To The Risks Of Doing Business Abroad, Particularly In China and Vietnam, Which Could Affect Our Ability To Sell Or Manufacture Our Products In International Markets, Obtain Products From Foreign Suppliers Or Control The Costs Of Our Products.

Substantially all of our net sales during the year ended December 31, 2016 were derived from sales of footwear manufactured in foreign countries, with most manufactured in China and Vietnam. We also sell our footwear in several foreign countries and plan to increase our international sales efforts as part of our growth strategy. Foreign manufacturing and sales are subject to a number of risks, including the following: political and social unrest, including terrorism; changing economic conditions, including higher labor costs; increased costs of raw materials; currency exchange rate fluctuations; labor shortages and work stoppages; electrical shortages; transportation delays; loss or damage to products in transit; expropriation; nationalization; the adjustment, elimination or imposition of domestic and international duties, tariffs, quotas, import and export controls and other non-tariff barriers; exposure to different legal standards (particularly with respect to intellectual property); compliance with foreign laws; and changes in domestic and foreign governmental policies. We have not, to date, been materially affected by any such risks, but we cannot predict the likelihood of such developments occurring or the resulting long-term adverse impact on our business, results of operations or financial condition.

In particular, because most of our products are manufactured in China and Vietnam, the possibility of adverse changes in trade or political relations with China or Vietnam, political instability in China or Vietnam, increases in labor costs, the occurrence of prolonged adverse weather conditions or a natural disaster such as an earthquake or typhoon in China or Vietnam, or the outbreak of a pandemic disease in China or Vietnam could severely interfere with the manufacturing and/or shipment of our products and would have a material adverse effect on our operations. In addition, electrical shortages, labor shortages or work stoppages may extend the production time necessary to produce our orders, and there may be circumstances in the future where we may have to incur premium freight charges to expedite the delivery of product to our customers. If we incur a significant amount of premium charges to airfreight product for our customers, our gross profit will be negatively affected if we are unable to collect those charges.

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

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

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

Many of our concept stores are located in shopping malls, and some of our factory outlet stores are located in manufacturers' outlet malls where we depend on obtaining prominent locations and the overall success of the malls to generate customer traffic. We cannot control the success of individual malls, and an increase in store closures by other retailers may lead to mall vacancies and reduced foot traffic. Some of our concept stores occupy street locations that are heavily dependent on customer traffic generated by tourism. Any substantial decrease in tourism resulting from an economic slowdown, political, social or military events or otherwise, is likely to adversely affect sales in our existing stores, particularly those with street locations. The effects of these factors could reduce sales of particular existing stores or hinder our ability to open retail stores in new markets, which could negatively affect our operating results.

We Rely On Independent Contract Manufacturers And, As A Result, Are Exposed To Potential Disruptions In Product Supply.

Our footwear products are currently manufactured by independent contract manufacturers. During 2016 and 2015, the top five manufacturers of our products produced approximately 51.0% and 56.5% of our total purchases, respectively. One manufacturer accounted for 22.9% and 31.5% of total purchases during 2016 and 2015, respectively. Another manufacturer accounted for 10.1% and 9.1% of our total purchases during 2016 and 2015, respectively. We do not have long-term contracts with manufacturers, and we compete with other footwear companies for production facilities. We could experience difficulties with these manufacturers, including reductions in the availability of production capacity, failure to meet our quality control standards, failure to meet production deadlines, or increased manufacturing costs. This could result in our customers canceling orders, refusing to accept deliveries, or demanding reductions in purchase prices, any of which could have a negative impact on our cash flow and harm our business.

If our current manufacturers cease doing business with us, we could experience an interruption in the manufacture of our products. Although we believe that we could find alternative manufacturers, we may be unable to establish relationships with alternative manufacturers that will be as favorable as the relationships we have now. For example, new manufacturers may have higher prices, less favorable payment terms, lower manufacturing capacity, lower quality standards, or higher lead times for delivery. If we are unable to provide products consistent with our standards, or the manufacture of our footwear is delayed or becomes more expensive, our business would be harmed.

Our Ability To Deliver Our Products To The Market Could Be Disrupted If We Encounter Problems Affecting Our Logistics And Distribution Systems.

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

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

We require our independent contract manufacturers, suppliers and licensees to operate in compliance with applicable laws and regulations. Manufacturers are required to certify that neither convicted, forced or indentured labor (as defined under United States law) nor child labor (as defined by law in the manufacturer’s country) is used in the production process, that compensation is paid in accordance with local law and that their factories are in compliance with local safety regulations. Although we promote ethical business practices and our sourcing personnel periodically visit and monitor the operations of our independent contract manufacturers, suppliers and licensees, we do not control them or their labor practices. If one of our independent contract manufacturers, suppliers or licensees violates labor or other laws or diverges from those labor practices generally accepted as ethical in the United States, it could result in adverse publicity for us, damage our reputation in the United States, or render our conduct of business in a particular foreign country undesirable or impractical, any of which could harm our business.

In addition, if we, or our foreign manufacturers, violate United States or foreign trade laws or regulations, we may be subject to extra duties, significant monetary penalties, the seizure and the forfeiture of the products we are attempting to import, or the loss of our import privileges. Possible violations of United States or foreign laws or regulations could include inadequate record-keeping of our imported products, misstatements or errors as to the origin, quota category, classification, marketing or valuation of our imported products, fraudulent visas, or labor violations. The effects of these factors could render our conduct of business in a particular country undesirable or impractical, and have a negative impact on our operating results.

Our Strategies Involve A Number Of Risks That Could Prevent Or Delay The Successful Opening Of New Stores As Well As Negatively Impact The Performance Of Our Existing Stores.

Our ability to successfully open and operate new stores depends on many factors, including, among others, our ability to identify suitable store locations, the availability of which is outside of our control; negotiate acceptable lease terms, including desired tenant improvement allowances; source sufficient levels of inventory to meet the needs of new stores; hire, train and retain store personnel; successfully integrate new stores into our existing operations; and satisfy the fashion preferences in new geographic areas.

In addition, some or a substantial number of new stores could be opened in regions of the United States in which we currently have few or no stores. Any expansion into new markets may present competitive, merchandising and distribution challenges that are different from those currently encountered in our existing markets. Any of these challenges could adversely affect our business and results of operations. In addition, to the extent that any new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets.

We Depend On Key Personnel To Manage Our Business Effectively In A Rapidly Changing Market, And If We Are Unable To Retain Existing Personnel, Our Business Could Be Harmed.

Our future success depends upon the continued services of Robert Greenberg, Chairman of the Board and Chief Executive Officer; Michael Greenberg, President and a member of our Board of Directors; and David Weinberg, Executive Vice President, Chief Operating Officer, Chief Financial Officer and a member of our Board of Directors. The loss of the services of any of these individuals or any other key employee could harm us. Our future success also depends on our ability to identify, attract and retain additional qualified personnel. Competition for employees in our industry is intense, and we may not be successful in attracting and retaining such personnel.

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

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

Our Ability To Compete Could Be Jeopardized If We Are Unable To Protect Our Intellectual Property Rights Or If We Are Sued For Intellectual Property Infringement.

We believe that our trademarks, design patents and other proprietary rights are important to our success and our competitive position. We use trademarks on nearly all of our products and believe that having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying us and in distinguishing our goods from the goods of others. We consider our Skechers®, Skechers D'Lites®, Skechers Sport®, Skechers USA®, Skechers Performance™, Skechers GOrun®, Skechers GOwalk®, You by Skechers™, ®, ®, ®, Skechers Cali™, Relaxed Fit®, Skecher Street™, D'Lites®, Skechers Air-Cooled Memory Foam™ and Skechers Memory Foam™, Skech-Air®, BOBS®, Energy Lights™, S-Lights® and Twinkle Toes® trademarks to be among our most valuable assets, and we have registered these trademarks in many countries. In addition, we own many other trademarks that we utilize in marketing our products. We also have a number of design patents and a limited number of utility patents covering components and features used in various shoes. We believe that our patents and trademarks are generally sufficient to permit us to carry on our business as presently conducted. While we vigorously protect our trademarks against infringement, we cannot guarantee that we will be able to secure patents or trademark protection for our intellectual property in the future or that protection will be adequate for future products. Further, we have been sued in the past for patent and trademark infringement and cannot be sure that our activities do not and will not infringe on the intellectual property rights of others. If we are compelled to prosecute infringing parties, defend our intellectual property or defend ourselves from intellectual property claims made by others, we may face significant expenses and liability as well as the diversion of management's attention from our business, each of which could negatively impact our business or financial condition.

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

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

We utilize information security and information technology systems and websites that allow for the secure storage and transmission of proprietary or private information regarding our customers, employees, and others, including credit card information and personal identification information. A security breach may expose us to a risk of loss or misuse of this information, litigation and potential liability. We may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving types of cyber-attacks. Attacks may be targeted at us, our customers, or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants. Advances in computer capabilities, new technological discoveries, or other developments may result in the technology used by us to protect against transaction or other data being breached or compromised. In addition, data and security breaches can also occur as a result of non-technical issues, including breach by us or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our cyber security systems could result in private information exposure and a violation of applicable privacy and other laws, significant potential liability including legal and financial costs, and loss of confidence in our security measures by customers, which could have an adverse effect on our business, financial condition and reputation.

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

As of December 31, 2016, a substantial portion of our operations are located in California, including 93 of our retail stores, our headquarters in Manhattan Beach, and our domestic distribution center in Rancho Belago. Because a significant portion of our net sales is derived from sales in California, a decline in the economic conditions in California, whether or not such decline spreads beyond California, could materially adversely affect our business. Furthermore, a natural disaster or other catastrophic event, such as an earthquake or wild fire affecting California, could significantly disrupt our business including the operation of our only domestic distribution center. We may be more susceptible to these issues than our competitors whose operations are not as concentrated in California.

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

As of December 31, 2016, our Chairman of the Board and Chief Executive Officer, Robert Greenberg, beneficially owned 75.2% of our outstanding Class B common shares, members of Mr. Greenberg's immediate family beneficially owned an additional 11.0% of our outstanding Class B common shares, and Gil Schwartzberg, trustee of several trusts formed by Mr. Greenberg and his wife for estate planning purposes, beneficially owned 34.3% of our outstanding Class B common shares. The holders of Class A common shares and Class B common shares have identical rights except that holders of Class A common shares are entitled to one vote per share while holders of Class B common shares are entitled to ten votes per share on all matters submitted to a vote of our stockholders. As a result, as of December 31, 2016, Mr. Greenberg beneficially owned 48.9% of the aggregate number of votes eligible to be cast by our stockholders, and together with shares beneficially owned by other members of his immediate family, Mr. Greenberg and his immediate family beneficially owned 56.8% of the aggregate number of votes eligible to be cast by our stockholders, and Mr. Schwartzberg beneficially owned 22.2% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Mr. Greenberg is able to substantially control, and Mr. Schwartzberg is able to exert significant influence over, all matters requiring approval by our stockholders. Matters that require the approval of our stockholders include the election of directors and the approval of mergers or other business combination transactions. Mr. Greenberg also has significant influence over our management and operations. As a result of such influence, certain transactions are not likely without the approval of Messrs. Greenberg and Schwartzberg, including proxy contests, tender offers, open market purchase programs, or other transactions that can give our stockholders the opportunity to realize a premium over the then-prevailing market prices for their shares of our Class A common shares. Because Messrs. Greenberg's and Schwartzberg's interests may differ from the interests of the other stockholders, their ability to significantly influence or substantially control, respectively, actions requiring stockholder approval may result in our company taking action that is not in the interests of all stockholders. The differential in the voting rights may also adversely affect the value of our Class A common shares to the extent that investors or any potential future purchaser view the superior voting rights of our Class B common shares to have value.

Our Charter Documents And Delaware Law May Inhibit A Takeover, Which May Adversely Affect The Value Of Our Stock.

Provisions of Delaware law, our certificate of incorporation or our bylaws could make it more difficult for a third party to acquire us, even if closing such a transaction would be beneficial to our stockholders. Mr. Greenberg's substantial beneficial ownership position, together with the authorization of Preferred Stock, the disparate voting rights between our Class A Common Stock and Class B Common Stock, the classification of our Board of Directors and the lack of cumulative voting in our certificate of incorporation and bylaws, may have the effect of delaying, deferring or preventing a change in control, may discourage bids for our Class A Common Stock at a premium over the market price of the Class A Common Stock and may adversely affect the market price of our Class A Common Stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located at several properties in or near Manhattan Beach, California, which consist of an aggregate of approximately 181,000 square feet. We own and lease portions of our corporate headquarters.

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

Our European Distribution Center occupies approximately 1.3 million square feet in Liege, Belgium under five operating leases, with base rents of approximately $5.1 million per year. These leases provide for original terms of 10-15 years, commencing between January 2016 and June 2016, subject to automatic extensions for recurring periods of five years unless we or the landlord terminates the lease in writing 12 months prior to the expiration of the original lease term or 12 months prior to the end of the then applicable five-year extension.

All of our domestic retail stores and showrooms are leased with terms expiring between March 2017 and January 2033. The leases provide for rent escalations tied to either increases in the lessor’s operating expenses, fluctuations in the consumer price index in the relevant geographical area, or a percentage of the store’s gross sales in excess of the base annual rent. Total base rent expense related to our domestic retail stores and showrooms was $77.6 million for the year ended December 31, 2016.

We also lease all of our international administrative offices, retail stores, showrooms and distribution facilities located in Asia, Central America, Europe, North America and South America. The property leases expire at various dates between March 2017 and November 2027. Total base rent for the leased properties aggregated approximately $65.1 million for the year ended December 31, 2016.

ITEM 3. LEGAL PROCEEDINGS

Personal Injury Lawsuits Involving Shape-ups — As previously reported, on February 20, 2011, Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group were named as defendants in a lawsuit that alleged, among other things, that Shape-ups are defective and unreasonably dangerous, negligently designed and/or manufactured, and do not conform to representations made by our company, and that we failed to provide adequate warnings of alleged risks associated with Shape-ups. In total, we are named as a defendant in 50 currently pending cases (some on behalf of multiple plaintiffs) filed in various courts that assert further varying injuries but employ similar legal theories and assert similar claims to the first case, as well as claims for breach of express and implied warranties, loss of consortium, and fraud. Although there are some variations in the relief sought, the plaintiffs generally seek compensatory and/or economic damages, exemplary and/or punitive damages, and attorneys’ fees and costs.

On December 19, 2011, the Judicial Panel on Multidistrict Litigation issued an order establishing a multidistrict litigation ("MDL") proceeding in the United States District Court for the Western District of Kentucky entitled *In re Skechers Toning Shoe Products Liability Litigation,* case no. 11-md-02308-TBR. Since 2011, a total of 1,235 personal injury cases have been filed in or transferred to the MDL proceeding. Skechers has resolved 1,743 personal injury claims in the MDL proceedings, comprised of 1,141 that were filed as formal actions and 602 that were submitted by plaintiff fact sheets. Skechers has also settled 34 claims in principle—17 filed cases and 17 claims submitted by plaintiff fact sheets—either directly or pursuant to a global settlement program that has been approved by the claimants' attorneys (described in greater detail below). Further, 42 cases in the MDL proceeding have been dismissed either voluntarily or on motions by Skechers and 38 unfiled claims submitted by plaintiff fact sheet have been abandoned. Between the consummated settlements and cases subject to the settlement program, all but 35 personal injury cases pending in the MDL have been or are expected to be resolved. On August 6, 2015, the Court entered an order staying all deadlines, including trial, pending further order of the Court.

Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group also have been named as defendants in a total of 72 personal injury actions filed in various Superior Courts of the State of California that were brought on behalf of 920 individual plaintiffs (360 of whom also submitted MDL court-approved questionnaires for mediation purposes in the MDL proceeding). Of those cases, 68 were originally filed in the Superior Court for the County of Los Angeles (the "LASC cases"). On August 20, 2014, the Judicial Council of California granted a petition by our company to coordinate all personal injury actions filed in California that relate to Shape-ups with the LASC cases (collectively, the "LASC Coordinated Cases"). On October 6, 2014, three cases that had been pending in other counties were transferred to and coordinated with the LASC Coordinated Cases. On April 17, 2015, an additional case was transferred to and coordinated with the LASC Coordinated Cases. Fifty-three actions brought on behalf of a total of 620 plaintiffs have been settled and dismissed. Eleven actions have been partially dismissed, with the claims of 221 plaintiffs being fully resolved. We have also settled in principle the claims of 26 plaintiffs from 4 actions pursuant to a global settlement program that has been approved by the plaintiffs' attorneys (described in greater detail below). One single-plaintiff lawsuit and the claims of 28 additional plaintiffs in multi-plaintiff lawsuits have been dismissed entirely, either voluntarily or on motion by us. The claims of 21 additional persons have been dismissed in part, either voluntarily or on motions by us. Thus, taking into account both consummated settlements and cases subject to the settlement program, only 14 lawsuits on behalf of a total of 24 plaintiffs are expected to remain in the LASC Coordinated Cases. Discovery is continuing in those fourteen remaining cases. No trial dates have been set.

In other state courts, a total of 12 personal injury actions (some on behalf of numerous plaintiffs) have been filed that have not been removed to federal court and transferred to the MDL. Eleven of those actions have been resolved and dismissed. The last remaining action in a state court other than California was filed in Missouri on January 4, 2016 on behalf of a single plaintiff. The complaint was served on November 14, 2016. We have answered the complaint and denied all material allegations asserted therein. The parties are now engaged in discovery. No trial date has been set.

With respect to the global settlement programs referenced above, the personal injury cases in the MDL and LASC Coordinated Cases and in other state courts were largely solicited and handled by the same plaintiffs law firms. Accordingly, mediations to discuss potential resolution of the various lawsuits brought by these firms were held on May 18, June 18, and July 24, 2015. At the conclusion of those mediations, the parties reached an agreement in principle on a global settlement program that is expected to resolve all or substantially all of the claims by persons represented by those firms. A master settlement agreement was executed as of March 24, 2016 and the parties are in the process of completing individual settlements. To the extent that the settlements with individual claimants are not finalized or otherwise consummated such that the litigation proceeds, it is too early to predict the outcome of any case, whether adverse results in any single case or in the aggregate would have a material adverse impact on our operations or financial position, and whether insurance coverage will be adequate to cover any losses. The settlements have been reached for business purposes in order to end the distraction of litigation, and we continue to believe we have meritorious defenses and intend to defend any remaining cases vigorously. In addition, it is too early to predict whether there will be future personal injury cases filed which are not covered by the global settlement program, whether adverse results in any single case or in the aggregate would have a material adverse impact on our operations or financial position, and whether insurance coverage will be available and/or adequate to cover any losses.

Converse, Inc. v. Skechers U.S.A., Inc. — On October 14, 2014, Converse filed an action against our company in the United States District Court for the Eastern District of New York, Brooklyn Division, Case 1:14-cv-05977-DLI-MDG, alleging trademark infringement, false designation of origin, unfair competition, trademark dilution and deceptive practices arising out of our alleged use of certain design elements on footwear. The complaint seeks, among other things, injunctive relief, profits, actual damages, enhanced damages, punitive damages, costs and attorneys' fees. On October 14, 2014, Converse also filed a complaint naming 27 respondents including our company with the U.S. International Trade Commission (the "ITC" or "Commission"), Federal Register Doc. 2014-24890, alleging violations of federal law in the importation into and the sale within the United States of certain footwear. Converse has requested that the Commission issue a general exclusion order, or in the alternative a limited exclusion order, and cease and desist orders. On December 8, 2014, the District Court stayed the proceedings before it. On December 19, 2014, Skechers responded to the ITC complaint, denying the material allegations and asserting affirmative defenses. A trial before an administrative law judge of the

ITC was held in August 2015. On November 15, 2015, the ITC judge issued his interim decision finding that certain discontinued products (Daddy'$ Money and HyDee HyTops) infringed on Converse's intellectual property, but that other, still active product lines (Twinkle Toes and BOBS Utopia) did not. On February 3, 2016, the ITC decided that it would review in part certain matters that were decided by the ITC judge. On June 28, 2016, the full ITC issued a ruling affirming that Skechers Twinkle Toe's and Bob's canvas shoes do not infringe Converse's Chuck Taylor Midsole Trademark and affirming that Converse's common law trademark was invalid. The full ITC also invalidated Converse's registered trademark. Converse appealed this decision to the United States Court of Appeals for the Federal Circuit. On January 27, 2017, Converse filed its appellate brief but did not contest the portion of the decision that held that Skechers Twinkle Toes and Bob's canvas shoes do not infringe. While it is too early to predict the outcome of these legal proceedings or whether an adverse result in either or both of them would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend these legal matters vigorously.

adidas America, Inc., et. al v. Skechers USA, Inc. — On September 14, 2015, adidas filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:15-cv-1741, alleging that three Skechers shoe styles (Skechers Onix, Skechers Relaxed Fit Cross Court TR, and Skechers Relaxed Fit – Supernova Style) infringe adidas' trademarks and/or trade dress rights. adidas asserts claims under federal and state law for trademark and trade dress infringement, unfair competition, trademark and trade dress dilution, unfair and deceptive trade practices, and breach of a settlement agreement entered into between the parties in 1995. adidas seeks injunctive relief, disgorgement of Skechers' profits, damages (including treble, enhanced and punitive damages), and attorneys' fees. On September 14, 2015, adidas filed a motion for preliminary injunction in which it sought to preliminarily restrain us from manufacturing, distributing, advertising, selling, or offering for sale any footwear (a) that is confusingly similar to adidas' STAN SMITH Trade Dress, (b) bearing stripes in a manner that is confusingly similar to adidas' Three-Stripe Mark, or (c) under adidas' SUPERNOVA Mark. We opposed adidas' motion. A hearing on adidas' motion was held on December 15, 2015. On February 12, 2016, the Court issued a preliminary injunction prohibiting us from selling two styles from our vast footwear collection and from using the word "Supernova" in connection with a third style. We have appealed the Court's order granting the injunction to the United States Court of Appeals for the Ninth Circuit. Trial is set to begin on August 8, 2017. While it is too early to predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

Nike, Inc., v. Skechers USA, Inc. — On January 4, 2016, Nike filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:16-cv-0007, alleging that certain Skechers shoe designs (Men's Burst, Women's Burst, Women's Flex Appeal, Men's Flex Advantage, Girls' Skech Appeal, and Boys' Flex Advantage) infringe the claims of eight design patents. Nike seeks injunctive relief, disgorgement of Skechers' profits, damages (including treble damages), pre-judgment and post-judgment interest, attorneys' fees, and costs. In April and May, 2016, we filed petitions with the United States Patent and Trademark Office's Patent Trial and Appeal Board for *inter partes* review of all eight design patents, seeking to invalidate those patents. In September and November, 2016, the Patent Trial and Appeal Board denied each of our petitions. On January 6, 2017, we filed several additional petitions for *inter partes* review with the Patent Trial and Appeal Board, seeking to invalidate seven of the eight designs patents that Nike is asserting. Those petitions are currently pending. While it is too early to predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

adidas America, Inc. and adidas AG v. Skechers USA, Inc. – On July 11, 2016, adidas filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:16-cv-01400-AC, alleging that certain of our children's styles (Boys' Mega Blade 2.0 and 2.5) infringe two of adidas' patents. The complaint seeks, among other things, injunctive relief and damages (including treble damages). On July 28, 2016, adidas filed a motion for a preliminary injunction, asking the Court to preliminarily restrain Skechers from importing, manufacturing, distributing, advertising, selling, or offering for sale any of the accused styles. While it is too early to predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

Karey Teng v. Skechers USA, Inc. et al. — On August 1, 2016, a former employee named Karey Teng filed an action against our company in the Superior Court of California, County of Los Angeles, Case No. YC071483, alleging harassment, national original and racial discrimination, failure to investigate and prevent harassment, retaliation, wrongful termination and constructive discharge, intentional and negligent infliction of emotional distress, among other causes of actions, and seeking special, general and consequential damages, punitive and exemplary damages, and attorneys' fees. This matter has been settled and the settlement did not have a material adverse impact on our operations or financial position.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our Class A Common Stock trades on the New York Stock Exchange under the symbol "SKX." The following table sets forth, for the periods indicated, the high and low sales prices of our Class A Common Stock.

	LOW	HIGH
Year Ended December 31, 2016		
First Quarter	$ 25.47	$ 34.27
Second Quarter	25.89	34.20
Third Quarter	20.90	32.71
Fourth Quarter	18.81	27.76
Year Ended December 31, 2015		
First Quarter	$ 18.41	$ 24.75
Second Quarter	23.33	38.26
Third Quarter	36.53	54.53
Fourth Quarter	24.56	49.28

HOLDERS

As of February 15, 2017, there were 100 holders of record of our Class A Common Stock (including holders who are nominees for an undetermined number of beneficial owners) and 26 holders of record of our Class B Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class B Common Stock is not publicly traded, but each share is convertible upon request of the holder into one share of Class A Common Stock.

DIVIDEND POLICY

Earnings have been and will be retained for the foreseeable future in the operations of our business. We have not declared or paid any cash dividends on our Class A Common Stock and do not anticipate paying any cash dividends in the foreseeable future. Our current policy is to retain all of our earnings to finance the growth and development of our business.

EQUITY COMPENSATION PLAN INFORMATION

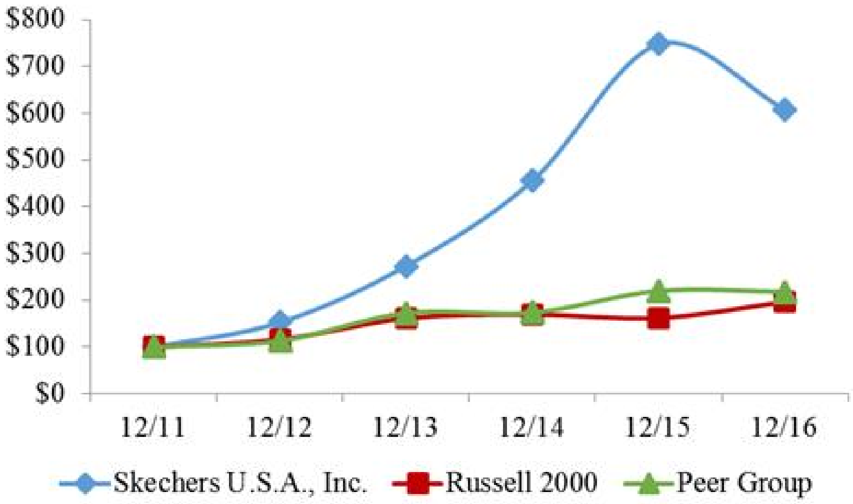
Our equity compensation plan information is provided as set forth in Part III, Item 12 of this annual report.

PERFORMANCE GRAPH

The following graph demonstrates the total return to stockholders of our company's Class A Common Stock from December 31, 2011 to December 31, 2016, relative to the performance of the Russell 2000 Index, which includes our Class A Common Stock, and the peer group index, which is believed to include companies engaged in businesses similar to ours. The peer group index consists of six companies: Nike, Inc., adidas AG, Steven Madden, Ltd., Wolverine World Wide, Inc., Crocs, Inc., and Deckers Outdoor Corporation.

The graph assumes an investment of $100 on December 31, 2011 in each of our company's Class A Common Stock and the stocks comprising each of the Russell 2000 Index and the customized peer group index. Each of the indices assumes that all dividends were reinvested. The stock performance of our company's Class A Common Stock shown on the graph is not necessarily indicative of future performance. We will neither make nor endorse any predictions as to our future stock performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURNS



(in dollars)	12/11	12/12	12/13	12/14	12/15	12/16
Skechers U.S.A., Inc.	100.00	152.64	273.35	455.86	747.77	608.42
Russell 2000	100.00	116.35	161.52	169.43	161.95	196.45
Peer Group	100.00	113.42	172.60	173.44	220.08	218.01

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our company's selected consolidated financial data as of and for each of the years in the five-year period ended December 31, 2016 and should be read in conjunction with our audited consolidated financial statements and notes thereto included under Part II, Item 8 of this annual report.

(In thousands, except net earnings per share)

	YEARS ENDED DECEMBER 31,				
STATEMENT OF EARNINGS DATA:	**2016**	**2015**	**2014**	**2013**	**2012**
Net sales	$ 3,563,311	$ 3,147,323	$ 2,377,561	$ 1,846,361	$ 1,560,321
Gross profit	1,634,596	1,424,008	1,071,905	818,792	683,326
Earnings from operations	370,518	350,824	209,071	93,609	22,319
Earnings before income taxes	359,484	333,497	191,380	82,215	10,473
Net earnings attributable to Skechers U.S.A., Inc.	243,493	231,912	138,811	54,788	9,512
Net earnings per share:(1)					
Basic	1.58	1.52	0.91	0.36	0.06
Diluted	1.57	1.50	0.91	0.36	0.06
Weighted average shares:(1)					
Basic	154,169	152,847	151,839	151,090	148,485
Diluted	155,084	154,200	153,079	151,690	149,826

	AS OF DECEMBER 31,				
BALANCE SHEET DATA:	**2016**	**2015**	**2014**	**2013**	**2012**
Working capital	$ 1,206,036	$ 971,179	$ 779,277	$ 704,506	$ 647,771
Total assets	2,393,670	2,039,878	1,674,918	1,408,570	1,340,220
Long-term borrowings, excluding current installments	67,159	68,942	15,081	116,488	128,517
Skechers U.S.A., Inc. equity	1,603,633	1,327,556	1,075,249	930,322	875,969

(1) *Basic earnings per share represents net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share, in addition to the weighted average determined for basic earnings per share, reflects the potential dilution that could occur if options to issue common stock were exercised or converted into common stock. All share and per share information has been retroactively adjusted for the three-for-one stock split that was effective on October 16, 2015.*

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

GENERAL

We design, market and sell contemporary footwear for men, women and children under the Skechers brand. Our footwear is sold through a wide range of department stores and leading specialty retail stores, mid-tier retailers, boutiques, our own retail stores, distributor and licensee-owned international retail stores and our e-commerce websites. Our objective is to continue to profitably grow our domestic operations while leveraging our brand name to expand internationally.

Our operations are organized along our distribution channels, and we have the following three reportable sales segments: domestic wholesale sales, international wholesale sales, which include international direct subsidiary sales and international distributor sales, and retail sales, which includes our e-commerce sales. We evaluate segment performance based primarily on net sales and gross margins. See detailed segment information in Note 17 – Segment and Geographic Reporting in our consolidated financial statements included under Part II, Item 8 of this annual report.

FINANCIAL OVERVIEW

Our net sales for 2016 increased $416.0 million, or 13.2%, to $3.56 billion, compared to net sales of $3.15 billion in 2015. The increase in net sales was primarily from our international wholesale and retail segments offset by decreases in our domestic wholesale segment. The largest increases came in our Women's and Men's GO, Men's and Women's Sport, and Work divisions during 2016. Net earnings attributable to Skechers U.S.A., Inc. were $243.5 million for 2016, an increase of $11.6 million, or 5.0%, compared to net earnings of $231.9 million in 2015. Diluted earnings per share for 2016 were $1.57, which reflected a 4.7% increase from the $1.50 diluted earnings per share reported in the prior year. The increase in net earnings attributable to Skechers U.S.A., Inc. for 2016 was primarily the result of increased sales and margins in our international wholesale segment and increased sales in our retail segment. Our working capital was $1.2 billion at December 31, 2016, which was an increase of $0.2 million from working capital of $971.2 million at December 31, 2015. Our cash and cash equivalents increased $210.5 million to $718.5 million at December 31, 2016 from $508.0 million at December 31, 2015. This increase in cash and cash equivalents of $210.5 million was primarily the result of our increased net earnings and increased payables, which were partially offset by increased inventories and increased capital investments.

2016 OVERVIEW

In 2016, we focused on product development, maintaining our position in our domestic wholesale accounts, growing our international market share, opening retail stores in key locations worldwide, developing our global infrastructure, and balance sheet and expense management.

New product design and delivery. Our success depends on our ability to design and deliver comfortable, stylish, affordable products to consumers across a broad range of demographics. In 2016, we focused on innovation and comfort across all of our core and existing styles, added fresh looks to our product lines, and developed new product lines that included lifestyle and performance footwear. This included updates to our running and walking lines, an updated collection of D'lites®, and a broader offering of lighted footwear.

Maintain our domestic business. In 2016, our focus was on maintaining our core Skechers business in our domestic wholesale accounts, by delivering the right product to accounts at the right time, while finding new opportunities to add shelf space and expand into new locations with new Skechers categories. In 2016, we remained the number two sport footwear brand in the United States, and the number one walking brand, work brand, and dress/comfort casual brand.

Further develop our international businesses. During 2016, we continued to focus on improving our international sales by increasing our product offering to accounts within each country, delivering the right product to accounts at the right time, and increasing our shelf space and our customer base. As part of our ongoing efforts to maximize our growth in key markets, we expanded our direct distribution by transitioning our international distributors in Israel and South Korea to joint ventures.

Expand Skechers global retail base. Believing that Skechers retail stores are effective brand building tools, we continued to focus on opening Skechers stores around the world—both company-owned and third-party owned through our distributors, franchisees or joint venture partners. In 2016, we opened 30 additional company-owned domestic stores and 31 additional company-owned international stores. In addition, we transitioned the operations of three international concept stores and 11 international outlet stores from our distributor in South Korea. Additionally, we continued to expand our franchise retail base with more Skechers branded stores in countries where we directly handle the distribution of our product.

Develop our global infrastructure. In 2016, we completed the fourth and fifth phase of automation upgrades and expansion of our European Distribution Center increasing our capacity to approximately 1.3 million square feet.

Balance sheet and expense management. During 2016, we continued to focus on managing our inventory levels and bringing our marketing expenses and general and administrative expenses in line with expected sales.

OUTLOOK FOR 2017

During 2017, we will continue to innovate our lifestyle and performance product lines by developing new styles and expanding into new categories. This includes the planned launch of the lifestyle and wellness line You by Skechers™ and the youthful lifestyle line Skecher Street™. The global footwear market is competitive; however, because our products are marketed at affordable prices, we believe that our styles resonate with consumers worldwide, which translates into a brand that is in demand globally. With a growing team of brand ambassadors—including sports icons Joe Montana, Sugar Ray Leonard and Howie Long for men; pop superstar Meghan Trainor for women; actors and personalities Rob Lowe, Brooke Burke-Charvet, and Kelly Brooke for men and women; elite athletes Meb and Kara Goucher; and professional golfers Matt Kuchar, Belen Mozo, Brooke Henderson, Billy Andrade and Colin Montgomerie. We believe our appeal is broad and demand for our product will continue. We will continue to broaden the targeted demographic profile of our consumer base, increase our shelf space and plan to open 70 to 90 company-owned retail locations, predominantly in the United States.

DEFINITIONS

Comparable sales

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

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

Cost of sales or Gross margins

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

Selling expenses

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

General and administrative expenses

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

YEAR ENDED DECEMBER 31, 2016 COMPARED TO THE YEAR ENDED DECEMBER 31, 2015

Net sales

Net sales for 2016 were $3.56 billion, which was an increase of $416.0 million, or 13.2%, compared to net sales of $3.15 billion for 2015. The increase in net sales was primarily from our international wholesale and retail segments offset by a decrease in our domestic wholesale segment.

Our domestic wholesale net sales decreased $20.0 million, or 1.6%, to $1.20 billion for 2016 compared to $1.22 billion for 2015. The decrease in our domestic wholesale segment's net sales was primarily the result of average selling price per pair decreasing 2.7%, to $22.89 per pair for 2016 from $23.53 for 2015, which was partially offset by a 1.1% unit sales volume increase to 52.4 million pairs in 2016 from 51.8 million pairs in 2015. This net sales decrease was also attributable to lower sales in our Women's and Men's Go, Women's Active and Men's USA divisions which was partially offset by increases in our Men's and Women's Sport and Work divisions during 2016. The average selling price per pair decrease within the domestic wholesale segment was primarily the result of decreased selling prices for our Women's GO and Women's Active divisions.

Our international wholesale segment net sales increased $296.8 million, or 27.1%, to $1.39 billion for 2016 compared to sales of $1.09 billion for 2015. Our international wholesale sales consist of direct sales by our foreign subsidiaries – those sales we make to department stores and specialty retailers – and sales to our distributors, who in turn sell to retailers in various international regions where we do not sell directly. Direct sales by our foreign subsidiaries increased $319.8 million, or 41.6%, to $1.09 billion for 2016 compared to sales of $768.2 million for 2015. The largest sales increases during the year came from our subsidiaries in the United Kingdom, Germany and Spain, and our joint ventures in China and Hong Kong. The increases are primarily attributable to sales of our Women's and Men's Go, Women's Active and Men's and Women's Sport lines. Our distributor sales decreased $23.0 million, or 7.0%, to $303.2 million for 2016, compared to sales of $326.2 million for 2015. This was primarily attributable to decreased sales to our distributors in Australia and New Zealand, Turkey, the United Arab Emirates ("UAE") and South Korea, which was transitioned from a distributor to a joint-venture in 2016.

Our retail segment sales increased $139.1 million to $972.2 million for the year ended December 31, 2016, a 16.7% increase over sales of $833.1 million for 2015. The increase in retail sales was primarily attributable to increased comparable sales of 4.1%, which included increased sales within our Men's and Women's Go, Men's and Women's Sport, and Work divisions and a net increase of 23 domestic and 30 international stores compared to 2015. For the year ended December 31, 2016, our domestic retail sales, which includes e-commerce, increased 9.7% compared to 2015, which was primarily attributable to increased domestic store count and to positive comparable domestic store sales of 2.2% and, and our international retail store sales increased 42.6% compared to 2015, which was attributable to increased international store count and positive comparable international store sales of 11.8%.

We believe that we have established our presence in most major domestic retail markets. We had 414 domestic stores and 157 international retail stores as of February 15, 2017, and we currently plan to open approximately 70 to 90 stores in 2017. During 2016, we opened four new domestic concept stores, eight domestic factory outlet stores, 18 domestic warehouse outlet stores, 21 international concept stores, and 10 international factory outlet stores. We also took over the operations of three international concept stores and 11 international outlet stores from our distributor in South Korea. During 2016, we closed six domestic concept stores, one domestic warehouse store and one international concept store. We periodically review all of our stores for impairment. During 2016 and 2015, we did not record an impairment charge. Further, we carefully review our under-performing stores and may consider the non-renewal of leases upon completion of the current term of the applicable lease.

Gross profit

Gross profit for 2016 increased $210.6 million to $1.63 billion from $1.42 billion for 2015. Gross profit, as a percentage of net sales, or gross margin, increased slightly to 45.9% in 2016 from 45.2% for 2015. Our domestic wholesale segment gross profit decreased $17.0 million, or 3.6%, to $454.1 million for 2016 from $471.1 million for 2015, which was attributable to decreased sales volumes and selling prices. Domestic wholesale margins decreased to 37.8% for 2016 from 38.6% for 2015. The decrease in domestic wholesale margins was primarily attributable to lower margins in our Women's GO and Women's Active lines.

Gross profit for our international wholesale segment increased $161.4 million, or 35.5%, to $616.1 million for 2016 compared to $454.7 million for 2015. Gross margins for the international wholesale segment were 44.3% for 2016 compared to 41.5% for 2015. Gross margins for our international direct subsidiary sales were 49.3% for 2016 as compared to 47.2% for 2015. The increase in gross margins for our international wholesale segment and international direct subsidiary sales were primarily attributable to sales of products with higher average selling prices. Gross margins for our international distributor sales decreased to 26.2% for 2016 as compared to 28.1% for 2015 primarily from sales of products with lower average selling prices.

Gross profit for our retail segment increased $66.2 million, or 13.3%, to $564.4 million for 2016 as compared to $498.2 million for 2015. Gross margins for all stores were 58.1% for 2016 compared to 59.8% for 2015. Gross margins for our domestic stores were 60.1% for 2016 as compared to 61.5% for 2015. Gross margins for our international stores were 52.3% for 2016 as compared to 53.4% for 2015. The decrease in our retail margins were primarily attributable to lower margins in our Women's GO, Women's Active and Women's USA products.

Selling expenses

Selling expenses increased by $21.5 million, or 9.1%, to $257.1 million for 2016 from $235.6 million for 2015. As a percentage of net sales, selling expenses were 7.2% and 7.5% for 2016 and 2015, respectively. The increase in selling expenses was primarily the result of $26.3 million in higher advertising expenses, which slightly increased as a percentage of net sales to 5.5% in 2016 from 5.4% in 2015.

General and administrative expenses

General and administrative expenses increased by $171.5 million, or 20.2%, to $1.02 billion for 2016 from $849.3 million for 2015. As a percentage of sales, general and administrative expenses were 28.6% and 27.0% for 2016 and 2015, respectively. The increase in general and administrative expenses was primarily attributable to $81.9 million related to supporting our growing international operations in China, Japan, South Korea and Latin America, increased store operating costs of $70.5 million primarily attributable to an additional 53 stores and increased domestic wholesale general and administrative expenses of $19.1 million primarily due to increased headcount in the United States to support our brand worldwide. In addition, expenses related to our distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of our products increased $20.0 million, due to increased shipments, to $187.3 million from $167.3 million for 2016 and 2015, respectively.

Other income (expense)

Interest income was $1.2 million for 2016 compared to $0.7 million for 2015. Interest expense for 2016 decreased $4.4 million to $6.3 million compared to $10.7 million in 2015. The decrease was primarily due to decreased interest expense of $3.0 million primarily attributable to our domestic distribution center equipment loans being paid in December 2015 and June 2016. Loss on foreign currency transactions for 2016 decreased $1.6 million to $5.0 million compared to $6.6 million in 2015. This decreased foreign currency exchange loss was primarily attributable to the impact of a stronger U.S. dollar on our intercompany balances in our foreign subsidiaries. Loss on disposal of assets for 2016 increased $0.4 million to a loss of $1.1 million as compared to a loss of $0.7 million in 2015.

Income taxes

Our provision for income tax expense and our effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (loss) before income taxes. In the non-U.S. jurisdictions in which we have operations, the applicable statutory rates are generally significantly lower than in the U.S., ranging from 0% to 34%. Our provision for income tax expense was calculated using the applicable statutory income tax rate for each jurisdiction applied to our pre-tax earnings (loss) in each jurisdiction, while our effective tax rate is calculated by dividing income tax expense by earnings (loss) before income taxes.

Our earnings (loss) before income taxes and income tax expense for 2016, 2015 and 2014 are as follows (in thousands):

	Years Ended December 31,					
	2016		2015		2014	
Income tax jurisdiction	**Earnings (loss) before income taxes**	**Income tax expense**	**Earnings (loss) before income taxes**	**Income tax expense**	**Earnings (loss) before income taxes**	**Income tax expense**
United States	$ 105,589	$ 44,654	$ 136,726	$ 52,173	$ 82,778	$ 32,500
Peoples Republic of China ("China")	72,584	11,720	49,027	11,084	15,201	1,179
Jersey (1)	146,880	—	123,721	—	77,555	—
Non-benefited loss operations (2)	(16,189)	12	(16,719)	164	(13,021)	—
Other jurisdictions (3)	50,620	17,739	40,742	9,029	28,867	5,505
Earnings before income taxes	$ 359,484	$ 74,125	$ 333,497	$ 72,450	$ 191,380	$ 39,184
Effective tax rate (4)		20.6%		21.7%		20.5%

(1) *Jersey does not assess income tax on corporate net earnings.*

(2) *Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being reported because of the provision of offsetting valuation allowances: Brazil, India, Israel, Japan, Panama, Poland, Romania, and South Korea.*

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

(4) *The effective tax rate is calculated by dividing income tax expense by earnings before income taxes.*

For 2016, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 39%, primarily because of earnings from foreign operations in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2016, as reflected in the table above, earnings (loss) before income taxes in the U.S. were $105.6 million, with income tax expense of $44.7 million, which is an average rate of 42.3%. Earnings (loss) before income taxes in non-U.S. jurisdictions were $253.9 million, with an aggregate income tax expense of $29.5 million, which is an average rate of 11.6%. Combined, this results in consolidated earnings before income taxes for the period of $359.5 million, and consolidated income tax expense for the period of $74.1 million, resulting in an effective tax rate of 20.6%. We estimate our annual effective tax rate for 2017 to be between 19% and 24%. The estimated effective tax rate for 2017 is subject to management's ongoing review and revision, if necessary. For 2016, of our $253.9 million in earnings before income tax earned outside the U.S., $146.9 million was earned in Jersey, which does not impose a tax on corporate earnings. In Jersey, earnings before income taxes increased by $23.2 million, or 18.7%, from $123.7 million in 2015 to $146.9 million in 2016. This increase was primarily attributable to us experiencing an increase of $344.9 million in net sales in the "Other international" geographic area for 2016 (see Note 17 – Segment and Geographic Reporting in our consolidated financial statements included under Part II, Item 8 of this annual report), which resulted in a significant increase in earnings before income taxes in Jersey from royalties and commissions under the terms of inter-subsidiary agreements. Due to the scalability of our operations, increases in net sales in the "Other international" geographic area from 2015 to 2016 resulted in a disproportionately greater increase in earnings before income taxes in Jersey. In addition, there were foreign losses of $16.2 million for which no tax benefit was recognized during the year ended December 31, 2016 because of the provision of offsetting valuation allowances, but in which $12 thousand in nonrefundable withholding taxes were paid. Individually, none of the other foreign jurisdictions included in "Other jurisdictions" in the table above had earnings greater than 5% of our consolidated earnings (loss) before taxes in any of the years shown. Unremitted earnings of non-U.S. subsidiaries are expected to be reinvested outside of the U.S. indefinitely. Such earnings would become taxable upon the sale or liquidation of these subsidiaries or upon the remittance of dividends.

As of December 31, 2016, we had approximately $718.5 million in cash and cash equivalents, of which $368.4 million, or 51.3%, was held outside the U.S. Of the $368.4 million held by our non-U.S. subsidiaries, approximately $33.4 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable non-U.S. income and withholding taxes in excess of the amounts accrued in our consolidated financial statements as of December 31, 2016. We believe our cash and cash equivalents held in the U.S. and cash provided from operations are sufficient to meet our liquidity needs in the U.S. for the next twelve months, and we do not expect that we will need to repatriate any of the funds presently designated as indefinitely reinvested outside the U.S. Under current applicable tax laws, if we chose to repatriate some or all of the funds we have designated as indefinitely reinvested outside the U.S., the amount repatriated would be subject to U.S. income taxes and applicable non-U.S. income and withholding taxes. As of December 31, 2016 and 2015, U.S. income taxes have not been provided on cumulative total earnings of approximately $699.6 million and $482.7 million, respectively.

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

Net earnings attributable to non-controlling interest for 2016 increased $12.8 million to $41.9 million as compared to $29.1 million for 2015 due to increased profitability of our joint ventures. Non-controlling interest represents the share of net earnings or loss that is attributable to our joint venture partners.

YEAR ENDED DECEMBER 31, 2015 COMPARED TO THE YEAR ENDED DECEMBER 31, 2014

Net sales

Net sales for 2015 were $3.15 billion, which was an increase of $769.8 million, or 32.4%, compared to net sales of $2.38 billion for 2014. The increase in net sales was broad-based and attributable to higher sales in our domestic wholesale segment, international wholesale segment and our retail segment primarily due to the introduction of new styles and lines of footwear.

Our domestic wholesale net sales increased $221.8 million, or 22.2%, to $1.220 billion for 2015 compared to $998.0 million for 2014. The increase in our domestic wholesale segment's net sales resulted from a 15.3% unit sales volume increase to 51.8 million pairs in 2015 from 44.9 million pairs in 2014. This increase was attributable to strong sales and significant growth in several key divisions including our Women's Go, Women's Active, Men's and Women's Sport, and Men's USA divisions during 2015. The average selling price per pair within the domestic wholesale segment also increased 6.0%, to $23.53 per pair for 2015 from $22.20 for 2014, which was primarily the result of increased selling prices for our Women's GO, Women's Active and Men's Sport divisions.

Our international wholesale segment net sales increased $405.2 million, or 58.8%, to $1.094 billion for 2015 compared to sales of $689.2 million for 2014. Our international wholesale sales consist of direct sales by our foreign subsidiaries – those sales we make to department stores and specialty retailers – and sales to our distributors, who in turn sell to retailers in various international regions where we do not sell directly. Direct sales by our foreign subsidiaries increased $271.0 million, or 54.5%, to $768.2 million for 2015 compared to sales of $497.2 million for 2014. The largest sales increases during the year came from our subsidiaries in the United Kingdom, Germany and Spain, and our joint ventures in China and Hong Kong. The increases are primarily attributable to sales of our Women's and Men's Go, Women's Active and Men's and Women's Sport lines. Our distributor sales increased $134.2 million, or 69.9%, to $326.2 million for 2015, compared to sales of $192.0 million for 2014. This was primarily attributable to increased sales to our distributors in Australia and New Zealand, South Korea, Turkey and the United Arab Emirates ("UAE").

Our retail segment sales increased $142.7 million to $833.1 million for the year ended December 31, 2015, a 20.7% increase over sales of $690.4 million for 2014. The increase in retail sales was primarily attributable to increased comparable sales of 10.5%, which included increased sales within our Women's Go, Women's Active, Men's and Women's Sport, and Men's USA divisions and a net increase of 28 domestic and 40 international stores compared to 2014. For the year ended December 31, 2015, our domestic retail sales increased 17.2% compared to 2014, which was attributable to positive comparable domestic store sales of 10.0% and increased domestic store count, and our international retail store sales increased 35.8% compared to 2014, which was attributable to increased international store count and positive comparable international store sales of 12.5%.

We believe that we have established our presence in most major domestic retail markets. We had 391 domestic stores and 128 international retail stores as of February 15, 2016. During 2015, we opened five new domestic concept stores, 11 domestic factory outlet stores, 19 domestic warehouse outlet stores, 16 international concept stores, six international factory outlet stores and two international warehouse outlet stores, which included taking over the operations of 15 international concept stores and two international outlet stores from our distributor in Panama. During 2015, we closed six domestic concept stores, one domestic outlet store and one international concept store. We periodically review all of our stores for impairment. During 2015 and 2014, we did not record an impairment charge.

Gross profit

Gross profit for 2015 increased $352.1 million to $1.424 billion from $1.072 billion for 2014. Gross profit as a percentage of net sales, or gross margin, increased slightly to 45.2% in 2015 from 45.1% for 2014. Our domestic wholesale segment gross profit increased $103.1 million, or 28.0%, to $471.1 million for 2015 from $368.0 million for 2014, which was attributable to increased sales volumes and selling prices. Domestic wholesale margins increased to 38.6% for 2015 from 36.9% for 2014. The increase in domestic wholesale margins was primarily attributable to higher margins in our Women's GO, Women's Active, Women's Sport and Men's USA lines.

Gross profit for our international wholesale segment increased $162.0 million, or 55.3%, to $454.7 million for 2015 compared to $292.7 million for 2014. Gross margins for the international wholesale segment were 41.5% for 2015 compared to 42.5% for 2014. Gross margins for our international direct subsidiary sales were 47.2% for 2015 as compared to 48.6% for 2014. The decrease in gross margins for our international wholesale segment and international direct subsidiary sales were primarily attributable to foreign currency fluctuations. Gross margins for our international distributor sales were 28.1% for 2015 as compared to 26.5% for 2014.

Gross profit for our retail segment increased $87.0 million, or 21.2%, to $498.2 million for 2015 as compared to $411.2 million for 2014. Gross margins for all stores were 59.8% for 2015 compared to 59.6% for 2014. Gross margins for our domestic stores were 61.5% for 2015 as compared to 60.1% for 2014. Gross margins for our international stores were 53.4% for 2015 as compared to 57.2% for 2014. The increases in domestic and overall retail margins were primarily attributable to increased domestic sales of our newer products at higher margins.

Selling expenses

Selling expenses increased by $54.6 million, or 30.1%, to $235.6 million for 2015 from $181.0 million for 2014. As a percentage of net sales, selling expenses were 7.5% and 7.6% for 2015 and 2014, respectively. The increase in selling expenses was primarily the result of increased sales commissions of $7.7 million due to increased revenues and $43.8 million in higher advertising expenses, which slightly increased as a percentage of net sales to 5.4% in 2015 from 5.3% in 2014.

General and administrative expenses

General and administrative expenses increased by $158.4 million, or 22.9%, to $849.3 million for 2015 from $690.9 million for 2014. As a percentage of sales, general and administrative expenses were 27.0% and 29.1% for 2015 and 2014, respectively. The increase in general and administrative expenses was primarily attributable to $68.0 million related to supporting our growing international operations, increased store operating costs of $42.7 million primarily attributable to an additional 68 stores, which includes 17 stores that were transitioned from our distributor in Panama to our wholly-owned subsidiary, increased salaries and wages of $22.9 million, including incentive compensation, and $17.9 million in professional fees. In addition, expenses related to our distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of our products increased $32.5 million, due to increased shipments, to $167.3 million from $134.8 million for 2015 and 2014, respectively.

Other income (expense)

Interest income was $0.7 million for 2015 compared to $0.8 million for 2014. Interest expense for 2015 decreased $1.8 million to $10.7 million compared to $12.5 million in 2014. The decrease was primarily due to decreased interest expense of $1.3 million attributable to reduced interest paid on loans for our domestic distribution center and domestic distribution center equipment. Loss on foreign currency transactions for 2015 increased $1.2 million to $6.6 million compared to $5.4 million in 2014. This increased foreign currency exchange loss was primarily attributable to the impact of a stronger U.S. dollar on our intercompany balances in our foreign subsidiaries. Loss on disposal of assets for 2015 decreased $0.2 million to a loss of $0.7 million as compared to a loss of $0.9 million in 2014.

Income taxes

Our provision for income tax expense and our effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (loss) before income taxes. In the non-U.S. jurisdictions in which we have operations, the applicable statutory rates are generally significantly lower than in the U.S., ranging from 0% to 34%. Our provision for income tax expense was calculated using the applicable statutory income tax rate for each jurisdiction applied to our pre-tax earnings (loss) in each jurisdiction, while our effective tax rate is calculated by dividing income tax expense by earnings (loss) before income taxes.

Our earnings (loss) before income taxes and income tax expense for 2015, 2014 and 2013 are as follows (in thousands):

	Years Ended December 31,					
	2015		2014		2013	
Income tax jurisdiction	Earnings (loss) before income taxes	Income tax expense	Earnings (loss) before income taxes	Income tax expense	Earnings (loss) before income taxes	Income tax expense
United States	$ 136,726	$ 52,173	$ 82,778	$ 32,500	$ 38,705	$ 12,807
Canada	4,228	1,024	6,241	1,572	4,091	1,187
Chile	2,983	572	629	138	9,622	1,920
Peoples Republic of China (“China”)	49,027	11,084	15,201	1,179	6,148	1,646
Jersey (1)	123,721	—	77,555	—	25,348	—
Non-benefited loss operations (2)	(16,719)	164	(13,021)	—	(15,841)	—
Other jurisdictions (3)	33,531	7,433	21,997	3,795	14,142	3,787
Earnings before income taxes	$ 333,497	$ 72,450	$ 191,380	$ 39,184	$ 82,215	$ 21,347
Effective tax rate (4)		21.7 %		20.5 %		26.0 %

(1) *Jersey does not assess income tax on corporate net earnings.*

(2) *Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being reported because of the provision of offsetting valuation allowances: Panama, Poland, Romania, Japan, Brazil and India.*

(3) *Consists of entities in the following tax jurisdictions, each of which comprises not more than 5% of 2015 consolidated earnings (loss) before taxes: Hungary, Serbia, Bosnia and Herzegovina, Montenegro, Macedonia, Albania, Kosovo, Vietnam, Panama, Peru, Colombia, Costa Rica, the United Kingdom, Germany, France, Spain, Belgium, Italy, Netherlands, Switzerland, Malaysia, Thailand, Singapore, Hong Kong, Portugal and Austria.*

(4) *The effective tax rate is calculated by dividing income tax expense by earnings before income taxes*.

For 2015, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 39%, primarily because of earnings from foreign operations in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2015, as reflected in the table above, earnings (loss) before income taxes in the U.S. were $136.7 million, with income tax expense of $52.2 million, which is an average rate of 38.2%. Earnings (loss) before income taxes in non-U.S. jurisdictions were $196.8 million, with an aggregate income tax expense of $20.3 million, which is an average rate of 10.3%. Combined, this results in consolidated earnings before income taxes for the period of $333.5 million, and consolidated income tax expense for the period of $72.5 million, resulting in an effective tax rate of 21.7%. For 2015, of our $196.8 million in earnings before income tax earned outside the U.S., $123.7 million was earned in Jersey, which does not impose a tax on corporate earnings. In Jersey, earnings before income taxes increased by $46.1 million, or 59.5%, to $123.7 million for 2015, from $77.6 million for 2014. This increase was primarily attributable to us experiencing an increase of $433.7 million in net sales in the “Other international” geographic area for 2015 (see Note 17 – Segment and Geographic Reporting in our consolidated financial statements included under Part II, Item 8 of this annual report), which resulted in a significant increase in earnings before income taxes in Jersey from royalties and commissions under the terms of inter-subsidiary agreements. Due to the scalability of our operations, increases in net sales in the “Other international” geographic area from 2014 to 2015 resulted in a disproportionately greater increase in earnings before income taxes in Jersey. In addition, there were foreign losses of $16.7 million for which no tax benefit was recognized during the year ended December 31, 2015 because of the provision of offsetting valuation allowances, but in which $0.2 million in nonrefundable withholding taxes were paid. Individually, none of the other foreign jurisdictions included in “Other jurisdictions” in the table above had more than 5% of our 2015 consolidated earnings (loss) before taxes. Unremitted earnings of non-U.S. subsidiaries are expected to be reinvested outside of the U.S. indefinitely. Such earnings would become taxable upon the sale or liquidation of these subsidiaries or upon the remittance of dividends.

As of December 31, 2015, we had approximately $508.0 million in cash and cash equivalents, of which $218.7 million, or 43.1%, was held outside the U.S. Of the $218.7 million held by our non-U.S. subsidiaries, approximately $33.4 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable non-U.S. income and withholding taxes in excess of the amounts accrued in our financial statements as of December 31, 2015. As of December 31, 2015 and 2014, U.S. income taxes have not been provided on cumulative total earnings of approximately $482.7 million and $318.2 million, respectively.

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

Non-controlling interest for 2015 increased $15.7 million to $29.1 million as compared to $13.4 million for 2014 due to increased profitability of our joint ventures. Non-controlling interest represents the share of net earnings or loss that is attributable to our joint venture partners.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our working capital at December 31, 2016 was $1.21 billion, an increase of $234.9 million from working capital of $971.2 million at December 31, 2015. Our cash and cash equivalents at December 31, 2016 was $718.5 million, compared to $508.0 million at December 31, 2015. This increase in cash and cash equivalents of $210.5 million, after consideration of the effect of exchange rates, was the result of our net earnings of $285.4 million, increased payables of $38.2 million, contributions from non-controlling interests of $14.0 million, and increased proceeds on short-term borrowings of $6.1 million, which was partially offset by capital expenditures of $119.5 million, increased inventories of $58.2 million and increased prepaid expenses and other current assets of $15.3 million. Our primary sources of operating cash are collections from customers on wholesale and retail sales. Our primary uses of cash are inventory purchases, selling, general and administrative expenses and capital expenditures.

Operating Activities

Net cash provided by operating activities was $361.6 million for 2016 and $232.2 million for 2015. On a comparative year-to-year basis, the $129.4 million increase in cash flows from operating activities in 2016 from cash used in operating activities in 2015 primarily resulted from a smaller increase in inventories of $117.9 million, a smaller increase in accounts receivable balances of $89.7 million, and decreased distributions to non-controlling interests of $21.4 million. The increases were partially offset by a $91.8 million smaller increase in accounts payable, a smaller increase of $41.1 million in accrued expenses and other long-term liabilities as of December 31, 2016 when compared to December 31, 2015.

Investing Activities

Net cash used in investing activities was $145.6 million for 2016, as compared to $126.5 million in 2015. The increase in cash used in investing activities in 2016 as compared to 2015 was due to the acquisition of our South Korea distributor for $22.5 million and an increase in capital expenditures of $1.3 million partially offset by a decrease in investments purchased of $4.6 million. Capital expenditures for 2016 were approximately $119.5 million, which primarily consisted of $37.3 million for new store openings and remodels, $17.5 million for the automation upgrades for our European Distribution Center equipment, $17.5 million for the improvement of our international corporate offices and showrooms, and $7.0 million related to property purchases for potential future corporate development. This was compared to capital expenditures of $118.1 million in the prior year, which primarily consisted of $42.2 million for new store openings and remodels, $6.2 million for the automation upgrades for our European Distribution Center equipment, $11.2 million in domestic warehouse equipment upgrades, $17.4 million for new office space for our China joint venture, and $15.0 million related to property purchases for potential future corporate development. We expect our ongoing capital expenditures for 2017 to be between $75.0 million and $80.0 million, which include opening 70 to 90 retail stores, store remodels, $25.0 million for infrastructure primarily in our China joint venture, corporate office and information technology upgrades. We believe our current cash, operating cash flows, available lines of credit and current financing arrangements should be adequate to fund these capital expenditures, although we may seek additional funding for all or a portion of these expenditures.

Financing Activities

Net cash used in financing activities was $3.5 million during 2016, compared to net cash used of $58.2 million during 2015. The increase in cash provided by financing activities was primarily attributable to the decrease in distributions to non-controlling interests, reduced payments required on our long-term debt, and increased contributions from non-controlling interests.

Sources of Liquidity

On December 29, 2010, we entered into a Master Loan and Security agreement (the “Master Agreement”), by and between us and Banc of America Leasing & Capital, LLC, and an Equipment Security Note (together with the Master Agreement, the “Loan Documents”), by and among us, Banc of America Leasing & Capital, LLC, and Bank of Utah, as agent (“Agent”). We used the proceeds to refinance certain equipment already purchased and to purchase new equipment for use in our Rancho Belago distribution center. Borrowings made pursuant to the Master Agreement may be in the form of one or more equipment security notes (each a “Note,” and, collectively, the “Notes”) up to a maximum limit of $80.0 million, and each for a term of 60 months. The Note entered into on the same date as the Master Agreement represented a borrowing of approximately $39.3 million (the “First Note”). Interest accrued at a fixed rate of 3.54% per annum on the First Note. We made the final payment on the First Note on December 29, 2015. On June 30, 2011, we entered into another Note for approximately $36.3 million (“the Second Note”). Interest accrued at a fixed rate of 3.19% per annum on the Second Note. We made the final payment on the Second Note on June 29, 2016.

On June 30, 2015, we entered into a $250.0 million loan and security agreement, subject to increase by up to $100.0 million, (the “Credit Agreement”), with the following lenders: Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association. The Credit Agreement matures on June 30, 2020. The Credit Agreement replaces the credit agreement dated June 30, 2009, which expired on June 30, 2015. The Credit Agreement permits us and certain of our subsidiaries to borrow based on a percentage of eligible accounts receivable plus the sum of (a) the lesser of (i) a percentage of eligible inventory to be sold at wholesale and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at wholesale, plus (b) the lesser of (i) a percentage of the value of eligible inventory to be sold at retail and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at retail, plus (c) the lesser of (i) a percentage of the value of eligible in-transit inventory and (ii) a percentage of the net orderly liquidation value of eligible in-transit inventory. Borrowings bear interest at our election based on (a) LIBOR or (b) the greater of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5% and (iii) LIBOR for a 30-day period plus 1.0%, in each case, plus an applicable margin based on the average daily principal balance of revolving loans available under the Credit Agreement. We pay a monthly unused line of credit fee of 0.25%, payable on the first day of each month in arrears, which is based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of $100.0 million. The Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the Company and its subsidiaries to, among other things, incur debt, grant liens, make certain acquisitions, dispose assets, effect a change of control of the Company, make certain restricted payments including certain dividends and stock redemptions, make certain investments or loans, enter into certain transactions with affiliates and certain prohibited uses of proceeds. The Credit Agreement also requires compliance with a minimum fixed-charge coverage ratio if Availability drops below 10% of the Revolver Commitments (as such terms are defined in the Credit Agreement) until the date when no event of default has existed and Availability has been over 10% for 30 consecutive days. We paid closing and arrangement fees of $1.1 million on this facility, which are being amortized to interest expense over the five-year life of the facility. As of December 31, 201 6, there was $0.1 million outstanding under this credit facility, which is classified as short-term borrowings in our consolidated balance sheets.

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

As of the date of the Amended Loan Agreement, the outstanding principal balance of the Original Loan was $77.3 million. In connection with this refinancing of the Original Loan, the JV, the Company and HF agreed that we would make an additional capital contribution of $38.7 million to the JV for the JV through HF-T1 to use to make a payment on the Original Loan. The payment equaled our 50% share of the outstanding principal balance of the Original Loan. Under the Amended Loan Agreement, the parties agreed that the lenders would loan $70.0 million to HF-T1 (the "New Loan"). The New Loan is being used by the JV through HF-T1 to (i) refinance all amounts owed on the Original Loan after taking into account the payment described above, (ii) pay $0.9 million in accrued interest, loan fees and other closing costs associated with the New Loan and (iii) make a distribution of $31.3 million less the amounts described in clause (ii) to HF. Pursuant to the Amended Loan Agreement, the interest rate on the New Loan is the LIBOR Daily Floating Rate (as defined in the Amended Loan Agreement) plus a margin of 2%. The maturity date of the New Loan is August 12, 2020, which HF-T1 has one option to extend by an additional 24 months, or until August 12, 2022, upon payment of a fee and satisfaction of certain customary conditions. On August 11, 2015, HF-T1 and Bank of America, N.A. entered into an ISDA master agreement (together with the schedule related thereto, the "Swap Agreement") to govern derivative and/or hedging transactions that HF-T1 concurrently entered into with Bank of America, N.A. Pursuant to the Swap Agreement, on August 14, 2015, HF-T1 entered into a confirmation of swap transactions (the "Interest Rate Swap") with Bank of America, N.A. The Interest Rate Swap has an effective date of August 12, 2015 and a maturity date of August 12, 2022, subject to early termination at the option of HF-T1, commencing on August 1, 2020. The Interest Rate Swap fixes the effective interest rate on the New Loan at 4.08% per annum. Pursuant to the terms of the JV, HF Logistics is responsible for the related interest expense on the New Loan, and any amounts related to the Swap Agreement. The full amount of interest expense related to the New Loan has been included in our consolidated statements of equity within non-controlling interests. The Amended Loan Agreement and the Swap Agreement are subject to customary covenants and events of default. Bank of America, N.A. also acts as a lender and syndication agent under our credit agreement dated June 30, 2015. We had $68.1 million outstanding under the Amended Loan Agreement, which is included in long-term borrowings as of December 31, 2016.

As of December 31, 2016, outstanding short-term and long-term borrowings were $75.0 million, of which $68.9 million relates to loans for our domestic distribution center. We were in compliance with all debt covenants under the Amended Loan Agreement and the Credit Agreement as of the date of this annual report.

We believe that anticipated cash flows from operations, available borrowings under our credit agreement, existing cash balances and current financing arrangements will be sufficient to provide us with the liquidity necessary to fund our anticipated working capital and capital requirements at least through March 31, 2018. Our future capital requirements will depend on many factors, including, but not limited to, the global economy and the outlook for and pace of sustainable growth in our markets, the levels at which we maintain inventory, sale of excess inventory at discounted prices, the market acceptance of our footwear, the success of our international operations, the levels of advertising and marketing required to promote our footwear, the extent to which we invest in new product design and improvements to our existing product design, any potential acquisitions of other brands or companies, and the number and timing of new store openings. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private financing of debt or equity. We have been successful in the past in raising additional funds through financing activities; however, we cannot be assured that additional financing will be available to us or that, if available, it can be obtained on past terms which have been favorable to our stockholders and us. Failure to obtain such financing could delay or prevent our current business plans, which could adversely affect our business, financial condition and results of operations. In addition, if additional capital is raised through the sale of additional equity or convertible securities, dilution to our stockholders could occur.

DISCLOSURE ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our material contractual obligations and commercial commitments as of December 31, 2016 (In thousands):

	Total	Less than One Year	One to Three Years	Three to Five Years	More Than Five Years
Short-term borrowings	$ 6,086	$ 6,086	$ —	$ —	$ —
Long-term borrowings (1)	78,796	4,571	8,812	65,413	—
Operating lease obligations (2)	1,369,895	191,345	336,723	284,539	557,288
Purchase obligations (3)	1,113,315	1,113,315	—	—	—
Minimum payments related to other arrangements	16,578	9,667	6,661	250	—
Total (4)	$ 2,584,670	$ 1,324,984	$ 352,196	$ 350,202	$ 557,288

(1) *Amounts include anticipated interest payments based on interest rates currently in effect.*

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

(3) *Purchase obligations include the following: (i) accounts payable balances for the purchase of footwear of $260.7 million, (ii) outstanding letters of credit of $2.0 million and (iii) open purchase commitments with our foreign manufacturers for $850.6 million. We currently expect to fund these commitments with cash flows from operations and existing cash balances.*

(4) *Our consolidated balance sheet, as of December 31, 2016, included $6.6 million in unrecognized tax benefits. Future payments related to these unrecognized tax benefits have not been presented in the table above, due to the uncertainty of the amounts, the potential timing of cash settlements with the tax authorities, and uncertainty whether any settlement would occur.*

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any relationships with unconsolidated entities or financial partnerships such as entities often referred to as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance-sheet arrangements or for other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

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

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

***Revenue Recognition*.** We derive income from the sale of footwear and royalties earned from licensing the Skechers brand. Domestically, goods are shipped Free on Board ("FOB") shipping point directly from our domestic distribution center in Rancho Belago, California. For our international wholesale customers in the European community, product is shipped FOB shipping point direct from our distribution center in Liege, Belgium. For our distributor sales, the goods are generally delivered directly from the independent factories to our distributors' freight forwarders on a Free Named Carrier ("FCA") basis. We recognize revenue on wholesale sales when products are shipped and the customer takes title and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. This generally occurs at time of shipment. Related costs paid to third-party shipping companies are recorded as a cost of sales. We recognize revenue from retail sales at the point of sale. Sales and value added taxes collected from retail customers are excluded from reported revenues. While customers do not have the right to return goods, we periodically decide to accept returns or provide customers with credits. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are provided for when related revenue is recorded.

Royalty income is earned from our licensing arrangements. Upon signing a new licensing agreement, we receive up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue as earned (i.e., as licensed sales are reported to the Company or on a straight-line basis over the term of the agreement). The first calculated royalty payment is based on actual sales of the licensed product or, in some cases, minimum royalty payments. Typically, at each quarter-end, we receive correspondence from our licensees indicating actual sales for the period, which is used to calculate and accrue the related royalties currently receivable based on the terms of the agreement.

Allowance for bad debts, returns, sales allowances and customer chargebacks. We provide a reserve against our receivables for estimated losses that may result from our customers' inability to pay. To minimize the likelihood of uncollectibility, customers' credit-worthiness is reviewed and adjusted periodically in accordance with external credit reporting services, financial statements issued by the customer and our experience with the account. When a customer's account becomes significantly past due, we generally place a hold on the account and discontinue further shipments to that customer, minimizing further risk of loss. We determine the amount of the reserve by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' countries or industries, historical losses and our customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this reserve. Allowance for returns, sales allowances and customer chargebacks are recorded against revenue. Allowances for bad debts are recorded to general and administrative expenses.

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

The likelihood of a material loss on an uncollectible account would be mainly dependent on deterioration in the overall economic conditions in a particular country or region. Reserves are fully provided for all probable losses of this nature. For receivables that are not specifically identified as high risk, we provide a reserve based upon our historical loss rate as a percentage of sales. Gross trade accounts receivable were $368.5 million and $368.2 million, and the allowance for bad debts, returns, sales allowances and customer chargebacks were $41.6 million and $24.3 million, at December 31, 2016 and 2015, respectively. Our credit losses charged to expense for the years ended December 31, 2016, 2015 and 2014 were $12.7 million, $5.3 million, and $11.8 million, respectively. In addition, we recorded sales return and allowance expense for the years ended December 31, 2016, 2015 and 2014 of $18.1 million, $2.3 million, and $2.3 million, respectively.

Inventory write-downs. Inventories are stated at the lower of cost or market. We continually review our inventory for excess and slow-moving inventory. Our review is based on inventory on hand, prior sales and expected net realizable value. Our analysis includes a review of inventory quantities on hand at period-end in relation to year-to-date sales, existing orders from customers and projections for sales in the foreseeable future. The net realizable value, or market value, is determined based on our estimate of sales prices of such inventory based on historical sales experience on a style-by-style basis. A write-down of inventory is considered permanent, and creates a new cost basis for those units. The likelihood of any material inventory write-down depends primarily on our expectation of future consumer demand for our product. A misinterpretation or misunderstanding of future consumer demand for our product or of the economy, or other failure to estimate correctly, could result in inventory valuation changes, either favorably or unfavorably, compared to the requirement determined to be appropriate as of the balance sheet date. Our gross inventory value was $712.0 million and $623.9 million, and our inventory reserve was $11.5 million and $3.7 million, at December 31, 2016 and 2015, respectively.

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

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

If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. In addition, we base the useful lives and related amortization or depreciation expense on our estimate of the period that the assets will generate revenues or otherwise be used by us. In addition, we prepare a summary of cash flows for each of our retail stores, to assess potential impairment of the fixed assets and leasehold improvements. Stores with negative cash flows which have been open in excess of twenty-four months are then reviewed in detail to determine whether impairment exists. Management reviews both quantitative and qualitative factors to assess whether a triggering event occurred. For the years ended December 31, 2016, 2015 and 2014, respectively we did not record an impairment charge.

Litigation reserves. Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in our consolidated financial statements. The likelihood of a material change in these estimated reserves would depend on additional information or new claims as they may arise as well as the favorable or unfavorable outcome of the particular litigation. Both the likelihood and amount (or range of loss) on a large portion of our remaining pending litigation is uncertain. As such, we are unable to make a reasonable estimate of the liability that could result from unfavorable outcomes in our remaining pending litigation. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates. Such revisions in our estimates of potential liability could materially impact our results of operations and financial position.

Valuation of deferred income taxes. We record a valuation allowance when necessary to reduce our deferred tax assets to the amount that is more likely than not to be realized. The likelihood of a material change in our expected realization of our deferred tax assets depends on future taxable income and the effectiveness of our tax planning strategies amongst the various domestic and international tax jurisdictions in which we operate. We evaluate our projections of taxable income to determine the recoverability of our deferred tax assets and the need for a valuation allowance. As of December 31, 2016, we had net deferred tax assets of $45.2 million reduced by a valuation allowance of $19.5 million primarily related to loss carry-forwards not expected to be utilized by certain foreign subsidiaries.

INFLATION

We do not believe that the rates of inflation experienced in the United States over the last three years have had a significant effect on our sales or profitability. However, we cannot accurately predict the effect of inflation on future operating results. Although higher rates of inflation have been experienced in a number of foreign countries in which our products are manufactured, we do not believe that inflation has had a material effect on our sales or profitability. While we have been able to offset our foreign product cost increases by increasing prices or changing suppliers in the past, we cannot assure you that we will be able to continue to make such increases or changes in the future.

EXCHANGE RATES

We receive U.S. dollars for substantially all of our domestic and a portion of our international product sales, as well as our royalty income. Inventory purchases from offshore contract manufacturers are primarily denominated in U.S. dollars. However, purchase prices for our products may be impacted by fluctuations in the exchange rate between the U.S. dollar and the local currencies of the contract manufacturers, which may have the effect of increasing our cost of goods in the future. During 2016 and 2015, exchange rate fluctuations did not have a material impact on our inventory costs. We do not engage in hedging activities with respect to such exchange rate risk.

RECENT ACCOUNTING PRONOUNCEMENTS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest rate fluctuations. As of December 31, 2016, we have $6.1 million and $68.1 million of outstanding short-term and long-term borrowings, respectively, subject to changes in interest rates. A 200 basis point increase in interest rates would have increased interest expense by less than $0.1 million for the year ended December 31, 2016. We do not expect any changes in interest rates to have a material impact on our financial condition or results of operations during the remainder of 2017. The interest rate charged on our domestic secured line of credit facility is based on the prime rate of interest and our domestic distribution center loan is based on the one month LIBOR. Changes in the prime rate of interest or the LIBOR interest rate will have an effect on the interest charged on outstanding balances. As of December 31, 2016, there was $0.1 million outstanding under this credit facility and $68.1 million outstanding on our domestic distribution center loan.

We have entered into derivative financial instruments such as interest rate swaps in order to mitigate our interest rate risk on our long-term debt. We will not enter into derivative transactions for speculative purposes. We had one derivative instrument in place as of December 31, 2016 to hedge the cash flows on our $68.1 million variable rate debt on our domestic distribution center. This instrument was a variable to fixed derivative with a notional amount of $68.1 million at December 31, 2016. Our average receive rate was one month LIBOR and the average pay rate was 2.08%. The rate swap agreement utilized by us effectively modifies our exposure to interest rate risk by converting our floating-rate debt to a fixed rate basis over the life of the loan, thus reducing the impact of interest-rate changes on future interest expense.

Foreign exchange rate fluctuations. We face market risk to the extent that changes in foreign currency exchange rates affect our non-U.S. dollar functional currency foreign subsidiaries' revenues, expenses, assets and liabilities. In addition, changes in foreign exchange rates may affect the value of our inventory commitments. Also, inventory purchases of our products may be impacted by fluctuations in the exchange rates between the U.S. dollar and the local currencies of the contract manufacturers, which could have the effect of increasing the cost of goods sold in the future. We manage these risks by primarily denominating these purchases and commitments in U.S. dollars. We do not engage in hedging activities with respect to such exchange rate risks.

Assets and liabilities outside the United States are located in regions where we have subsidiaries or joint ventures: Asia, Central America, Europe, the Middle East, North America, and South America. Our investments in foreign subsidiaries and joint ventures with a functional currency other than the U.S. dollar are generally considered long-term. Accordingly, we do not hedge these net investments. The fluctuation of foreign currencies resulted in a cumulative foreign currency translation loss of $0.3 million and $10.2 million for the years ended December 31, 2016 and 2015, respectively, that are deferred and recorded as a component of accumulated other comprehensive income in stockholders' equity. A 200 basis point reduction in each of these exchange rates at December 31, 2016 would have reduced the values of our net investments by approximately $21.2 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Skechers U.S.A., Inc. and subsidiaries ("Company") as of December 31, 2016 and 2015 and the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. 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 subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the 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.

As discussed in note 12 to the consolidation financial statements, the Company changed its method of presentation of deferred tax assets and liabilities in 2016 due to the adoption of Financial Accounting Standards Board Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This change was applied retrospectively to all periods presented and resulted in the reclassification of approximately $22.3 million of deferred tax assets from current assets to noncurrent assets within the Company's consolidated balance sheet as of December 31, 2015.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Skechers U.S.A., Inc. and subsidiaries internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 1, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Los Angeles, CA
March 1, 2017

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

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 718,536	$ 507,991
Trade accounts receivable, less allowances of $41,647 in 2016 and $24,260 in 2015	326,844	343,930
Other receivables	19,191	18,661
Total receivables	346,035	362,591
Inventories	700,515	620,247
Prepaid expenses and other current assets	62,680	57,363
Total current assets	1,827,766	1,548,192
Property, plant and equipment, net	494,473	435,907
Deferred tax assets	26,043	17,825
Other assets, net	45,388	37,954
Total non-current assets	565,904	491,686
TOTAL ASSETS	$ 2,393,670	$ 2,039,878
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of long-term borrowings	$ 1,783	$ 15,653
Short-term borrowings	6,086	59
Accounts payable	520,437	473,983
Accrued expenses	93,424	87,318
Total current liabilities	621,730	577,013
Long-term borrowings, excluding current installments	67,159	68,942
Deferred tax liabilities	412	8,507
Other long-term liabilities	18,855	9,682
Total non-current liabilities	86,426	87,131
Total liabilities	708,156	664,144
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000 shares authorized; none issued and outstanding	—	—
Class A common stock, $0.001 par value; 500,000 shares authorized; 130,386 and 127,324 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	130	127
Class B convertible common stock, $0.001 par value; 75,000 shares authorized; 24,545 and 26,278 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	24	26
Additional paid-in capital	419,038	386,156
Accumulated other comprehensive loss	(26,604)	(26,305)
Retained earnings	1,211,045	967,552
Skechers U.S.A., Inc. equity	1,603,633	1,327,556
Noncontrolling interests	81,881	48,178
Total stockholders' equity	1,685,514	1,375,734
TOTAL LIABILITIES AND EQUITY	$ 2,393,670	$ 2,039,878

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2016	2015	2014
Net sales	$ 3,563,311	$ 3,147,323	$ 2,377,561
Cost of sales	1,928,715	1,723,315	1,305,656
Gross profit	1,634,596	1,424,008	1,071,905
Royalty income	13,885	11,745	9,107
	1,648,481	1,435,753	1,081,012
Operating expenses:			
Selling	257,129	235,586	181,018
General and administrative	1,020,834	849,343	690,923
	1,277,963	1,084,929	871,941
Earnings from operations	370,518	350,824	209,071
Other income (expense):			
Interest income	1,186	722	837
Interest expense	(6,270)	(10,728)	(12,466)
Other, net	(5,950)	(7,321)	(6,062)
Total other expense	(11,034)	(17,327)	(17,691)
Earnings before income tax expense	359,484	333,497	191,380
Income tax expense	74,125	72,450	39,184
Net earnings	285,359	261,047	152,196
Less: Net earnings attributable to non-controlling interests	41,866	29,135	13,385
Net earnings attributable to Skechers U.S.A., Inc.	$ 243,493	$ 231,912	$ 138,811
Net earnings per share attributable to Skechers U.S.A., Inc.:			
Basic	$ 1.58	$ 1.52	$ 0.91
Diluted	$ 1.57	$ 1.50	$ 0.91
Weighted average shares used in calculating net earnings per share attributable to Skechers U.S.A, Inc.:			
Basic	154,169	152,847	151,839
Diluted	155,084	154,200	153,079

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2016	**2015**	**2014**
Net earnings	$ 285,359	$ 261,047	$ 152,196
Other comprehensive income:			
Loss on foreign currency translation adjustment	(4,698)	(13,167)	(7,954)
Comprehensive income	280,661	247,880	144,242
Less: Comprehensive income attributable to noncontrolling interests	37,467	26,196	12,807
Comprehensive income attributable to Skechers U.S.A., Inc.	$ 243,194	$ 221,684	$ 131,435

See accompanying notes to consolidated financial statements.

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

	SHARES		AMOUNT			ACCUMULATED				
	CLASS A COMMON STOCK	CLASS B COMMON STOCK	CLASS A COMMON STOCK	CLASS B COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	OTHER COMPREHENSIVE LOSS	RETAINED EARNINGS	SKECHERS U.S.A., INC. EQUITY	NON CONTROLLING INTERESTS	TOTAL STOCKHOLDERS' EQUITY
Balance at January 1, 2014	119,064	32,610	$ 120	$ 32	$ 342,042	$ (8,701)	$ 596,829	$ 930,322	$ 49,598	$ 979,920
Net earnings	—	—	—	—	—	—	138,811	138,811	13,385	152,196
Foreign currency translation adjustment	—	—	—	—	—	(7,376)	—	(7,376)	(578)	(7,954)
Contribution from noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	503	503
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	(4,050)	(4,050)
Stock compensation expense	—	—	—	—	8,684	—	—	8,684	—	8,684
Proceeds from issuance of common stock under the employee stock purchase plan	306	—	—	—	3,363	—	—	3,363	—	3,363
Shares issued under the Incentive Award Plan	292	—	—	—	—	—	—	—	—	—
Tax benefit of stock options exercised	—	—	—	—	1,446	—	—	1,446	—	1,446
Conversion of Class B Common Stock into Class A Common Stock	1,200	(1,200)	—	(1)	—	—	—	(1)	—	(1)
Balance at December 31, 2014	120,862	31,410	$ 120	$ 31	$ 355,535	$ (16,077)	$ 735,640	$ 1,075,249	$ 58,858	$ 1,134,107
Net earnings	—	—	—	—	—	—	231,912	231,912	29,135	261,047
Foreign currency translation adjustment	—	—	—	—	—	(10,228)	—	(10,228)	(2,939)	(13,167)
Contribution from noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	2,272	2,272
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	(39,148)	(39,148)
Stock compensation expense	—	—	—	—	18,296	—	—	18,296	—	18,296
Proceeds from issuance of common stock under the employee stock purchase plan	224	—	1	—	4,317	—	—	4,318	—	4,318
Shares issued under the Incentive Award Plan	1,106	—	1	—	(1)	—	—	—	—	—
Tax benefit of stock options exercised	—	—	—	—	8,009	—	—	8,009	—	8,009
Conversion of Class B Common Stock into Class A Common Stock	5,132	(5,132)	5	(5)	—	—	—	—	—	—
Balance at December 31, 2015	127,324	26,278	$ 127	$ 26	$ 386,156	$ (26,305)	$ 967,552	$ 1,327,556	$ 48,178	$ 1,375,734
Net earnings	—	—	—	—	—	—	243,493	243,493	41,866	285,359
Foreign currency translation adjustment	—	—	—	—	—	(299)	—	(299)	(4,399)	(4,698)
Contribution from noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	13,980	13,980
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	(17,744)	(17,744)

Stock compensation expense	—	—	—	—	23,081	—	—	23,081	—	23,081
Proceeds from issuance of common stock under the employee stock purchase plan	221	—	—	—	5,120	—	—	5,120	—	5,120
Shares issued under the Incentive Award Plan	1,108	—	1	—	(1)	—	—	—	—	—
Tax benefit of stock options exercised	—	—	—	—	4,682	—	—	4,682	—	4,682
Conversion of Class B Common Stock into Class A Common Stock	1,733	(1,733)	2	(2)	—	—	—	—	—	—
Balance at December 31, 2016	130,386	24,545	$ 130	$ 24	$ 419,038	$ (26,604)	$ 1,211,045	$ 1,603,633	$ 81,881	$ 1,685,514

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net earnings	$ 285,359	$ 261,047	$ 152,196
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	66,083	52,433	47,557
Amortization of other assets	13,099	1,214	1,948
Provision for bad debts and returns	30,820	7,520	14,153
Non-cash share-based compensation	23,081	18,296	8,684
Deferred income taxes	(11,936)	(4,844)	22,411
Loss on non-current assets	413	656	837
Net foreign currency adjustments	(3,949)	—	—
(Increase) decrease in assets:			
Receivables	(10,350)	(100,032)	(70,695)
Inventories	(58,152)	(176,062)	(100,162)
Prepaid expenses and other current assets	(15,343)	(2,082)	(31,788)
Other assets	(5,056)	(6,423)	4,548
Increase in liabilities:			
Accounts payable	38,247	130,075	98,686
Accrued expenses and other long-term liabilities	9,306	50,416	15,507
Net cash provided by operating activities	361,622	232,214	163,882
Cash flows from investing activities:			
Capital expenditures	(119,471)	(118,144)	(56,905)
Intangible asset additions	—	(55)	—
Purchases of investments	(3,810)	(8,428)	—
Proceeds from sales of investments	170	144	—
Acquisition of South Korea distributor	(22,534)	—	
Net cash used in investing activities	(145,645)	(126,483)	(56,905)
Cash flows from financing activities:			
Net proceeds from the issuances of common stock through employee stock purchase plan	5,120	4,318	3,363
Payments on long-term debt	(15,653)	(32,656)	(12,028)
Proceeds from long-term debt	—	762	—
Proceeds (payments) on short-term borrowings	6,091	(1,733)	1,723
Excess tax benefits from share-based compensation	4,682	8,009	1,446
Contribution from non-controlling interests of consolidated entity	13,980	2,272	503
Distributions to non-controlling interests of consolidated entity	(17,744)	(39,148)	(4,050)
Net cash used in financing activities	(3,524)	(58,176)	(9,043)
Net increase in cash and cash equivalents	212,453	47,555	97,934
Effect of exchange rates on cash and cash equivalents	(1,908)	(6,249)	(3,260)
Cash and cash equivalents at beginning of the period	507,991	466,685	372,011
Cash and cash equivalents at end of the period	$ 718,536	$ 507,991	$ 466,685
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 5,724	$ 9,891	$ 10,822
Income taxes	65,260	63,479	29,499

See accompanying notes to consolidated financial statements.

(1) THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The Company and Basis of Presentation

Skechers U.S.A., Inc. and subsidiaries (the "Company") designs, develops, markets and distributes footwear. The Company operates 413 domestic and 157 international retail stores and an e-commerce business as of December 31, 2016.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

On August 21, 2015, the Company's Board of Directors approved a three-for-one stock split, effected in the form of a stock dividend, of both the Company's Class A and Class B common stock. The stock split was made on October 16, 2015 to stockholders of record at the close of business on October 2, 2015. All share numbers and per-share amounts presented in the consolidated financial statements reflect the three-for-one stock split.

(b) Use of Estimates

The Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States. Significant areas requiring the use of estimates relate primarily to revenue recognition, allowance for bad debts, returns, sales allowances and customer chargebacks, inventory write-downs, valuation of intangibles and long-lived assets, litigation reserves and valuation of deferred income taxes. Actual results could differ materially from those estimates.

(c) Revenue Recognition

The Company recognizes revenue on wholesale sales when products are shipped and the customer takes title and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. This generally occurs at time of shipment. Related costs paid to third-party shipping companies are recorded as a cost of sales. Generally, wholesale customers do not have the right to return goods, however, the Company periodically decides to accept returns or provide customers with credits. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are provided for when related revenue is recorded. The Company recognizes revenue from retail sales at the point of sale. Sales and value added taxes collected from retail customers are excluded from reported revenues.

Royalty income is earned from licensing arrangements. Upon signing a new licensing agreement, the Company receives up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue as earned. The first calculated royalty payment is based on actual sales of the licensed product or, in some cases, minimum royalty payments. Typically, at each quarter-end, the Company receives correspondence from licensees indicating actual sales for the period, which is used to calculate and accrue the related royalties currently receivable based on the terms of the agreement.

(d) Business Segment Information

The Company's operations and segments are organized along its distribution channels and consist of the following: domestic wholesale, international wholesale, and retail, which includes e-commerce sales. Information regarding these segments is summarized in Note 17 – Segment and Geographic Reporting.

(e) Noncontrolling Interests

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Company's products throughout Asia and the Middle East or to construct the Company's domestic distribution facility. These joint ventures are variable interest entities ("VIE")'s under Accounting Standards Codification ("ASC") 810-10-15-14. The Company's determination of the primary beneficiary of a VIE considers all relationships between the Company and the VIE, including management agreements, governance documents and other contractual arrangements. The Company has determined that it is the primary beneficiary for these VIE's because the Company has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity, or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Accordingly, the Company includes the assets and liabilities and results of operations of these entities in its consolidated financial statements, even though the Company may not hold a majority equity interest. There have been no changes during 2016 in the accounting treatment or characterization of any previously identified VIE. The Company continues to reassess these relationships quarterly. The assets of these joint ventures are restricted in that they are not available for general business use outside the context of such joint ventures. The holders of the liabilities of each joint venture have no recourse to the Company. The Company does not have a variable interest in any unconsolidated VIEs.

(f) Fair Value of Financial Instruments

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

The carrying amount of the Company's long-term borrowings are considered Level 2 liabilities, which approximates fair value, based upon current rates and terms available to the Company for similar debt.

As of August 12, 2015, the Company entered into an interest rate swap agreement concurrent with refinancing its domestic distribution center construction loan (see Note 6, Derivative Instruments). The fair value of the interest rate swap was determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipt was based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with U.S. GAAP, credit valuation adjustments were incorporated to appropriately reflect both the Company's nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. The majority of the inputs used to value the interest rate swap were within Level 2 of the fair value hierarchy. As of December 31, 2016, the interest rate swap was a Level 2 derivative and was classified as other long-term liabilities in the Company's consolidated balance sheets.

(g) Cash and Cash Equivalents

Cash and cash equivalents include deposits with initial terms of less than three months. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

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

The Company provides a reserve, charged against revenue and its receivables, for estimated losses that may result from its customers' inability to pay. To minimize the likelihood of uncollectability, customers' credit-worthiness is reviewed and adjusted periodically in accordance with external credit reporting services, financial statements issued by the customer and the Company's experience with the account. When a customer's account becomes significantly past due, the Company generally places a hold on the account and discontinues further shipments to that customer, minimizing further risk of loss. The Company determines the amount of the reserve by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' countries or industries, historical losses and its customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged against this reserve.

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

The likelihood of a material loss on an uncollectible account would be mainly dependent on deterioration in the overall economic conditions in a particular country or environment. Reserves are fully provided for all probable losses of this nature. For receivables that are not specifically identified as high-risk, the Company provides a reserve based upon its historical loss rate as a percentage of sales.

(i) Inventories

Inventories, principally finished goods, are stated at the lower of cost (based on the first-in, first-out method) or market (net realizable value). Cost includes shipping and handling fees and costs, which are subsequently expensed to cost of sales. The Company provides for estimated losses from obsolete or slow-moving inventories, and writes down the cost of inventory at the time such determinations are made. Reserves are estimated based on inventory on hand, historical sales activity, industry trends, the retail environment, and the expected net realizable value. The net realizable value is determined using estimated sales prices of similar inventory through off-price or discount store channels.

(j) Property, Plant and Equipment

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

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

Property, plant and equipment subject to depreciation and amortization is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The Company reviews both quantitative and qualitative factors to assess whether a triggering event occurred. The Company prepares a summary of store cash flows from its retail stores to assess potential impairment of the fixed assets and leasehold improvements. Stores with negative cash flows which have been open in excess of 24 months are then reviewed in detail to determine whether impairment exists. Recoverability of assets or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. The Company did not record impairment charges during the years ended December 31, 2016, 2015 or 2014.

(k) Income Taxes

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

(l) Foreign Currency Translation

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

(m) Comprehensive Income

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

(n) Advertising Costs

Advertising costs are expensed in the period in which the advertisements are first run, or over the life of the endorsement contract. Advertising expense for the years ended December 31, 2016, 2015 and 2014 was approximately $213.1 million, $188.1 million and $141.7 million, respectively. Prepaid advertising costs were $9.8 million and $11.2 million at December 31, 2016 and 2015, respectively. Prepaid amounts outstanding at December 31, 2016 and 2015 represent the unamortized portion of endorsement contracts, advertising in trade publications and media productions created, but not run, as of December 31, 2016 and 2015, respectively.

(o) Product Design and Development Costs

The Company charges all product design and development costs to general and administrative expenses, when incurred. Product design and development costs aggregated approximately $13.6 million, $11.2 million, and $10.3 million during the years ended December 31, 2016, 2015 and 2014, respectively.

(p) Warehouse and Distribution Costs

The Company's distribution network-related costs are included in general and administrative expenses and are not allocated to specific segments. The expenses related to its distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of its products totaled $187.3 million, $167.3 million and $134.8 million for 2016, 2015 and 2014, respectively.

(q) Recent Accounting Pronouncements

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. ASU No. 2016-16, "*Accounting for Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory*." The standard requires that the income tax impact of intra-entity sales and transfers of property, except for inventory, be recognized when the transfer occurs. The standard will become effective for the Company's annual and interim reporting periods beginning January 1, 2018 and will require any deferred taxes not yet recognized on intra-entity transfers to be recorded to retained earnings under a modified retrospective approach. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-16; however at the current time the Company does not know what impact the adoption of this ASU will have on its consolidated financial statements, financial condition or results of operations.

In August 2016, the FASB issued ASU No. 2016-15, *"Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,"* ("ASU 2016-15") which eliminates the diversity in practice related to the classification of certain cash receipts and payments. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The retrospective transition method, requiring adjustment to all comparative periods presented, is required unless it is impracticable for some of the amendments, in which case those amendments would be prospectively adopted as of the earliest date practicable. ASU 2016-15 is effective for the Company's annual and interim reporting periods beginning January 1, 2018. The Company is currently evaluating the impact of ASU 2016-15; however at the current time the Company does not know what impact the adoption of this ASU will have on its consolidated financial statements, financial condition or results of operations.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," ("ASU 2016-13") which requires measurement and recognition of expected versus incurred credit losses for financial assets held. ASU 2016-13 is effective for the Company's annual and interim reporting periods beginning January 1, 2020, with early adoption permitted on January 1, 2019. The Company is currently evaluating the impact of ASU 2016-13; however at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements, financial condition or results of operations.

In March 2016, the FASB issued ASU No. 2016-09, *"Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting"* ("ASU 2016-09"). The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Management anticipates increased income statement volatility due to the recognition of all excess tax benefits and deficiencies within the consolidated statements of earnings. Income statement volatility will be driven by the number of shares vesting in any given period, and the change in share price between grant date and vesting. Directionally, increasing share prices from grant date to vesting date will result in lower income tax expense and higher net income. The update to the standard is effective for the Company's annual and interim reporting periods beginning January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact of ASU 2016-09; however at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements, financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*" ("ASU 2016-02"). The new standard requires lessees to recognize most leases on the balance sheet, which will increase lessees' reported assets and liabilities. ASU 2016-02 is effective for the Company's annual and interim reporting periods beginning January 1, 2019. ASU 2016-02 mandates a modified retrospective transition method. The Company is currently assessing the impact of the new standard on its consolidated financial statements, but anticipates an increase in assets and liabilities due to the recognition of the required right-of-use asset and corresponding liability for all lease obligations that are currently classified as operating leases, such as real estate leases for corporate headquarters, administrative offices, retail stores, showrooms, and distribution facilities, as well as additional disclosure on all our lease obligations. The income statement recognition of lease expense is not expected to change from the current methodology.

In January 2016, the FASB issued ASU No. 2016-01, "*Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities"* "ASU 2016-01"). The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The update to the standard should be applied prospectively and is effective for the Company's annual and interim reporting periods beginning January 1, 2018. The Company is currently evaluating the impact of ASU 2016-01; however at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements, financial condition or results of operations.

In July 2015, the FASB issued ASU No. 2015-11, "*Inventory (Topic 330): Simplifying the Measurement of Inventory*" ("ASU 2015-11"). ASU 2015-11 requires that inventory within the scope of this standard be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this update do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. ASU 2015-11 will be effective for the Company's annual and interim reporting periods beginning January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact of this ASU; however the Company does not expect that the adoption of ASU 2015-11 will have a material impact on its consolidated financial statements, financial condition or results of operations.

In May 2014, the FASB issued ASU No. 2014-09 "*Revenue from Contracts with Customers*," which amended the FASB Accounting Standards Codification ("ASC") and created a new Topic ASC 606, "*Revenue from Contracts with Customers*" ("ASC 606"). This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in ASC Topic 605, "*Revenue Recognition*," and most industry-specific guidance throughout the Industry Topics of the Codification. For the Company's annual and interim reporting periods the mandatory adoption date of ASC 606 is January 1, 2018, and there will be two methods of adoption allowed, either a full retrospective adoption or a modified retrospective adoption. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 to the first quarter of 2018. In March 2016, April 2016, May 2016, and December 2016, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20, respectively, as clarifications to ASU 2014-09. ASU 2016-08 clarifies how to identify the unit of accounting for the principal versus agent evaluation, how to apply the control principle to certain types of arrangements, such as service transactions, and reframed the indicators in the guidance to focus on evidence that an entity is acting as a principal rather than as an agent. ASU 2016-10 clarifies the existing guidance on identifying performance obligations and licensing implementation. ASU 2016-12 adds practical expedients related to the transition for contract modifications and further defines a completed contract, clarifies the objective of the collectability assessment and how revenue is recognized if collectability is not probable, and when non-cash considerations should be measured. ASU 2016-20 corrects or improves guidance in thirteen narrow focus aspects of the guidance. The effective dates for these ASUs are the same as the effective date for ASU No. 2014-09, for the Company's annual and interim periods beginning January 1, 2018. These ASU's also require enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows. The Company will adopt the new revenue standards in its first quarter of 2018. The Company has not selected a transition method. The Company is still completing the assessment of the impact of these ASUs on its consolidated financial statements; however at the current time the Company does not expect that the adoption of these ASUs will have a material impact on its consolidated financial statements, financial condition or results of operations.

(2) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2016 and 2015 is summarized as follows (in thousands):

	2016	2015
Land	$ 83,163	$ 76,163
Buildings and improvements	207,665	200,607
Furniture, fixtures and equipment	297,540	248,684
Leasehold improvements	289,847	236,842
Total property, plant and equipment	878,215	762,296
Less accumulated depreciation and amortization	383,742	326,389
Property, plant and equipment, net	$ 494,473	$ 435,907

(3) ACCRUED EXPENSES

Accrued expenses at December 31, 2016 and 2015 are summarized as follows (in thousands):

	2016	2015
Accrued inventory purchases	$ 48,087	$ 53,607
Accrued payroll and taxes	45,337	33,711
Accrued expenses	$ 93,424	$ 87,318

(4) LINE OF CREDIT AND SHORT-TERM BORROWINGS

On June 30, 2015, the Company entered into a $250.0 million loan and security agreement, subject to increase by up to $100.0 million, (the "Credit Agreement"), with the following lenders: Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association. The Credit Agreement matures on June 30, 2020. The Credit Agreement replaces the credit agreement dated June 30, 2009, which expired on June 30, 2015. The Credit Agreement permits the Company and certain of its subsidiaries to borrow based on a percentage of eligible accounts receivable plus the sum of (a) the lesser of (i) a percentage of eligible inventory to be sold at wholesale and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at wholesale, plus (b) the lesser of (i) a percentage of the value of eligible inventory to be sold at retail and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at retail, plus (c) the lesser of (i) a percentage of the value of eligible in-transit inventory and (ii) a percentage of the net orderly liquidation value of eligible in-transit inventory. Borrowings bear interest at the Company's election based on (a) LIBOR or (b) the greater of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5% and (iii) LIBOR for a 30-day period plus 1.0%, in each case, plus an applicable margin based on the average daily principal balance of revolving loans available under the Credit Agreement. The Company pays a monthly unused line of credit fee of 0.25%, payable on the first day of each month in arrears, which is based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of $100.0 million. The Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the Company and its subsidiaries to, among other things, incur debt, grant liens, make certain acquisitions, dispose assets, effect a change of control of the Company, make certain restricted payments including certain dividends and stock redemptions, make certain investments or loans, enter into certain transactions with affiliates and certain prohibited uses of proceeds. The Credit Agreement also requires compliance with a minimum fixed-charge coverage ratio if Availability drops below 10% of the Revolver Commitments (as such terms are defined in the Credit Agreement) until the date when no event of default has existed and Availability has been over 10% for 30 consecutive days. The Company paid closing and arrangement fees of $1.1 million on this facility, which are being amortized to interest expense over the five-year life of the facility. As of December 31, 2016 and December 31, 2015, there was $0.1 million outstanding under the Company's credit facilities, classified as short-term borrowings in the Company's consolidated balance sheets. The remaining balance of $6.0 million in short-term borrowings as of December 31, 2016 is related to the Company's joint venture in India.

(5) LONG-TERM BORROWINGS

Long-term borrowings at December 31, 2016 and 2015 is as follows (in thousands):

	2016	2015
Note payable to banks, due in monthly installments of $121.3 (includes principal and interest), variable-rate interest at 2.77% per annum, secured by property, balloon payment of $62,843 due August 2020	$ 68,059	$ 69,515
Note payable to banks, due in monthly installments of $483.9 (includes principal and interest), fixed-rate interest at 3.19% per annum, secured by property, balloon payment of $11,670 paid in June 2016	—	13,886
Note payable to TCF Equipment Finance, Inc., due in monthly installments of $30.5, (includes principal and interest) fixed-rate interest at 5.24% per annum, maturity date of July 2019	883	1,194
Subtotal	68,942	84,595
Less current installments	1,783	15,653
Total long-term borrowings	$ 67,159	$ 68,942

The aggregate maturities of long-term borrowings at December 31, 2016 are as follows (in thousands):

2017	$	1,783
2018		1,801
2019		1,666
2020		63,692
	$	68,942

The Company's long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. The Company is in compliance with its non-financial covenants, including any cross default provisions, and financial covenants of its long-term borrowings as of December 31, 2016.

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

As of the date of the Amended Loan Agreement, the outstanding principal balance of the Original Loan was $77.3 million. In connection with this refinancing of the Original Loan, the JV, the Company and HF Logistics ("HF") agreed that the Company would make an additional capital contribution of $38.7 million to the JV, through HF-T1, to make a payment on the Original Loan based on the Company's 50% equity interest in the JV. The payment equaled the Company's 50% share of the outstanding principal balance of the Original Loan. Under the Amended Loan Agreement, the parties agreed that the lenders would loan $70.0 million to HF-T1 (the "New Loan"). The New Loan is being used by the JV, through HF-T1, to (i) refinance all amounts owed on the Original Loan after taking into account the payment described above, (ii) pay $0.9 million in accrued interest, loan fees and other closing costs associated with the New Loan and (iii) make a distribution of $31.3 million less the amounts described in clause (ii) to HF. Pursuant to the Amended Loan Agreement, the interest rate on the New Loan is the LIBOR Daily Floating Rate (as defined in the Amended Loan Agreement) plus a margin of 2%. The maturity date of the New Loan is August 12, 2020, which HF-T1 has one option to extend by an additional 24 months, or until August 12, 2022, upon payment of a fee and satisfaction of certain customary conditions. On August 11, 2015, HF-T1 and Bank of America, N.A. entered into an ISDA master agreement (together with the schedule related thereto, the "Swap Agreement") to govern derivative and/or hedging transactions that HF-T1 concurrently entered into with Bank of America, N.A. Pursuant to the Swap Agreement, on August 14, 2015, HF-T1 entered into a confirmation of swap transactions (the "Interest Rate Swap") with Bank of America, N.A. The Interest Rate Swap has an effective date of August 12, 2015 and a maturity date of August 12, 2022, subject to early termination at the option of HF-T1, commencing on August 1, 2020. The Interest Rate Swap fixes the effective interest rate on the New Loan at 4.08% per annum. Pursuant to the terms of the JV, HF Logistics is responsible for the related interest expense on the New Loan, and any amounts related to the Swap Agreement. The full amount of interest expense related to the New Loan has been included in the Company's consolidated statements of equity within non-controlling interests. The Amended Loan Agreement and the Swap Agreement are subject to customary covenants and events of default. Bank of America, N.A. also acts as a lender and syndication agent under the Credit Agreement dated June 30, 2015 (see Note 6, Derivative Instruments).

On December 29, 2010, the Company entered into a master loan and security agreement (the "Master Agreement"), by and between the Company and Banc of America Leasing & Capital, LLC, and an Equipment Security Note (together with the Master Agreement, the "Loan Documents"), by and among the Company, Banc of America Leasing & Capital, LLC, and Bank of Utah, as agent ("Agent"). The Company used the proceeds to refinance certain equipment already purchased and to purchase new equipment for use in the Rancho Belago distribution facility. Borrowings made pursuant to the Master Agreement may be in the form of one or more equipment security notes (each a "Note," and, collectively, the "Notes") up to a maximum limit of $80.0 million and each for a term of 60 months. The First Note entered into on the same date as the Master Agreement represented a borrowing of approximately $39.3 million ("the First Note"). Interest accrued at a fixed rate of 3.54% per annum on the First Note. The Company made the final payment on the First Note on December 29, 2015. On June 30, 2011, the Company entered into another Note agreement for approximately $36.3 million ("the Second Note"). Interest accrued at a fixed rate of 3.19% per annum on the Second Note. The Company made the final payment on the Second Note on June 29, 2016.

(6) DERIVATIVE INSTRUMENTS

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, the Company used an interest rate swap as part of its interest rate risk management strategy. The Company's interest rate swap involves the receipt of variable amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. On August 12, 2015, in connection with refinancing its domestic distribution center loan, described in Note 5 above, the Company entered into a variable-to-fixed interest rate swap agreement with Bank of America, N.A., to hedge the cash flows on the Company's $70.0 million variable rate debt. As of December 31, 2016, the swap agreement has an aggregate notional amount of $68.1 million and a maturity date of August 12, 2022, subject to early termination commencing on August 1, 2020 at the option of HF Logistics-SKX T1, LLC ("HF-T1"), a wholly-owned subsidiary of the Company's joint venture HF Logistics-SKX, LLC (the "JV"). Under the terms of the swap agreement, the Company will pay a weighted-average fixed rate of 2.08% on the $68.1 million notional amount and receive payments from the counterparty based on the 30-day LIBOR rate. The rate swap agreement utilized by the Company effectively modifies its exposure to interest rate risk by converting the Company's floating-rate debt to a fixed-rate of 4.08% for the life of the loan thus reducing the impact of interest-rate changes on future interest expense. Pursuant to the terms of the JV, HF Logistics is responsible for any amounts related to the Swap Agreement.

By utilizing an interest rate swap, the Company is exposed to credit-related losses in the event that the counterparty fails to perform under the terms of the derivative contract. To mitigate this risk, the Company enters into derivative contracts with major financial institutions based upon credit ratings and other factors. The Company continually assesses the creditworthiness of its counterparties. As of December 31, 2016, all counterparties to the interest rate swap had performed in accordance with their contractual obligations.

(7) COMMITMENTS AND CONTINGENCIES

(a) Leases

The Company leases facilities under operating lease agreements expiring through January 31, 2033. The Company pays taxes, maintenance and insurance in addition to the lease obligations. Leases may provide for renewal options and rent escalations tied to either increases in the lessor's operating expenses, fluctuations in the consumer price index in the relevant geographical area, or a percentage of gross sales in excess of a base annual rent. The Company also leases certain equipment and automobiles under operating lease agreements expiring at various dates through September 2018. Rent expense for the years ended December 31, 2016, 2015 and 2014 approximated $171.0 million, $137.8 million and $107.0 million, respectively.

Minimum lease payments, which take into account escalation clauses, are recognized on a straight-line basis over the minimum lease term. Reimbursements for leasehold improvements are recorded as liabilities and are amortized as a reduction to rent expense over the lease term. Lease concessions, usually a free rent period, are considered in the calculation of the minimum lease payments for the minimum lease term.

Future minimum lease payments under noncancellable leases at December 31, 2016 are as follows (in thousands):

	OPERATING LEASES
Year ending December 31:	
2017	$ 191,345
2018	179,873
2019	156,850
2020	143,309
2021	141,230
Thereafter	557,288
	$ 1,369,895

(b) Product and Other Financing

The Company finances production activities in part through the use of interest-bearing open purchase arrangements with certain of its international manufacturers. These arrangements currently bear interest at rates between 0% and 0.5% for 30- to 60-day financing. The amounts outstanding under these arrangements at December 31, 2016 and 2015 were $260.7 million and $120.4 million, respectively, which are included in accounts payable in the accompanying consolidated balance sheets. Interest expense incurred by the Company under these arrangements amounted to $4.4 million in 2016, $5.4 million in 2015, and $5.1 million in 2014.

The Company has open purchase commitments with its foreign manufacturers at December 31, 2016 of $850.6 million, which are not included in the accompanying 2016 consolidated balance sheet.

(c) Litigation

Personal Injury Lawsuits Involving Shape-ups — As previously reported, on February 20, 2011, Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group were named as defendants in a lawsuit that alleged, among other things, that Shape-ups are defective and unreasonably dangerous, negligently designed and/or manufactured, and do not conform to representations made by the Company, and that the Company failed to provide adequate warnings of alleged risks associated with Shape-ups. In total, the Company is named as a defendant in 50 currently pending cases (some on behalf of multiple plaintiffs) filed in various courts that assert further varying injuries but employ similar legal theories and assert similar claims to the first case, as well as claims for breach of express and implied warranties, loss of consortium, and fraud. Although there are some variations in the relief sought, the plaintiffs generally seek compensatory and/or economic damages, exemplary and/or punitive damages, and attorneys' fees and costs.

On December 19, 2011, the Judicial Panel on Multidistrict Litigation issued an order establishing a multidistrict litigation ("MDL") proceeding in the United States District Court for the Western District of Kentucky entitled In re Skechers Toning Shoe Products Liability Litigation, case no. 11-md-02308-TBR. Since 2011, a total of 1,235 personal injury cases have been filed in or transferred to the MDL proceeding. The Company has resolved 1,743 personal injury claims in the MDL proceedings, comprised of 1,141 that were filed as formal actions and 602 that were submitted by plaintiff fact sheets. The Company has also settled 34 claims in principle—17 filed cases and 17 claims submitted by plaintiff fact sheets—either directly or pursuant to a global settlement program that has been approved by the claimants' attorneys (described in greater detail below). Further, 42 cases in the MDL proceeding have been dismissed either voluntarily or on motions by the Company and 38 unfiled claims submitted by plaintiff fact sheet have been abandoned. Between the consummated settlements and cases subject to the settlement program, all but 35 personal injury cases pending in the MDL have been or are expected to be resolved. On August 6, 2015, the Court entered an order staying all deadlines, including trial, pending further order of the Court.

Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group also have been named as defendants in a total of 72 personal injury actions filed in various Superior Courts of the State of California that were brought on behalf of 920 individual plaintiffs (360 of whom also submitted MDL court-approved questionnaires for mediation purposes in the MDL proceeding). Of those cases, 68 were originally filed in the Superior Court for the County of Los Angeles (the "LASC cases"). On August 20, 2014, the Judicial Council of California granted a petition by the Company to coordinate all personal injury actions filed in California that relate to Shape-ups with the LASC cases (collectively, the "LASC Coordinated Cases"). On October 6, 2014, three cases that had been pending in other counties were transferred to and coordinated with the LASC Coordinated Cases. On April 17, 2015, an additional case was transferred to and coordinated with the LASC Coordinated Cases. Fifty-three actions brought on behalf of a total of 620 plaintiffs have been settled and fully dismissed. Eleven actions have been partially dismissed, with the claims of 221 plaintiffs in those actions having been fully resolved and dismissed. The Company has also settled in principle the claims of 26 plaintiffs from 4 actions either directly or pursuant to a global settlement program that has been approved by the plaintiffs' attorneys (described in greater detail below). One single-plaintiff lawsuit and the claims of 28 additional plaintiffs in multi-plaintiff lawsuits have been dismissed entirely, either voluntarily or on motion by the Company. The claims of 21 additional persons have been dismissed in part, either voluntarily or on motions by the Company. Thus, taking into account both consummated settlements and cases subject to the settlement program, only 14 lawsuits on behalf of a total of 24 plaintiffs are expected to remain in the LASC Coordinated Cases. Discovery is continuing in those fourteen remaining cases. No trial dates have been set.

In other state courts, a total of 12 personal injury actions (some on behalf of numerous plaintiffs) have been filed that have not been removed to federal court and transferred to the MDL. Eleven of those actions have been resolved and dismissed. The last remaining action in a state court other than California was filed in Missouri on January 4, 2016 on behalf of a single plaintiff. The complaint was served on November 14, 2016. We have answered the complaint and denied all material allegations asserted therein. The parties are now engaged in discovery. No trial date has been set.

With respect to the global settlement programs referenced above, the personal injury cases in the MDL and LASC Coordinated Cases and in other state courts were largely solicited and handled by the same plaintiffs law firms. Accordingly, mediations to discuss potential resolution of the various lawsuits brought by these firms were held on May 18, June 18, and July 24, 2015. At the conclusion of those mediations, the parties reached an agreement in principle on a global settlement program that is expected to resolve all or substantially all of the claims by persons represented by those firms. A master settlement agreement was executed as of March 24, 2016 and the parties are in the process of completing individual settlements. To the extent that the settlements with individual claimants are not finalized or otherwise consummated such that the litigation proceeds, it is too early to predict the outcome of any case, whether adverse results in any single case or in the aggregate would have a material adverse impact on our operations or financial position, and whether insurance coverage will be adequate to cover any losses. The settlements have been reached for business purposes in order to end the distraction of litigation, and the Company continues to believe it has meritorious defenses and intends to defend any remaining cases vigorously. In addition, it is too early to predict whether there will be future personal injury cases filed which are not covered by the global settlement program, whether adverse results in any single case or in the aggregate would have a material adverse impact on our operations or financial position, and whether insurance coverage will be available and/or adequate to cover any losses.

Converse, Inc. v. Skechers U.S.A., Inc. — On October 14, 2014, Converse filed an action against the Company in the United States District Court for the Eastern District of New York, Brooklyn Division, Case 1:14-cv-05977-DLI-MDG, alleging trademark infringement, false designation of origin, unfair competition, trademark dilution and deceptive practices arising out of the Company's alleged use of certain design elements on footwear. The complaint seeks, among other things, injunctive relief, profits, actual damages, enhanced damages, punitive damages, costs and attorneys' fees. On October 14, 2014, Converse also filed a complaint naming 27 respondents including the Company with the U.S. International Trade Commission (the "ITC" or "Commission"), Federal Register Doc. 2014-24890, alleging violations of federal law in the importation into and the sale within the United States of certain footwear. Converse has requested that the Commission issue a general exclusion order, or in the alternative a limited exclusion order, and cease and desist orders. On December 8, 2014, the District Court stayed the proceedings before it. On December 19, 2014, The Company responded to the ITC complaint, denying the material allegations and asserting affirmative defenses. A trial before an administrative law judge of the ITC was held in August 2015. On November 15, 2015, the ITC judge issued his interim decision finding that certain discontinued products (Daddy'$ Money and HyDee HyTops) infringed on Converse's intellectual property, but that other, still active product lines (Twinkle Toes and BOBS Utopia) did not. On February 3, 2016, the ITC decided that it would review in part certain matters that were decided by the ITC judge. On June 28, 2016, the full ITC issued a ruling affirming that Skechers Twinkle Toe's and Bob's canvas shoes do not infringe Converse's Chuck Taylor Midsole Trademark and affirming that Converse's common law trademark was invalid. The full ITC also invalidated Converse's registered trademark. Converse appealed this decision to the United States Court of Appeals for the Federal Circuit. On January 27, 2017, Converse filed its appellate brief but did not contest the portion of the decision that held that Skechers Twinkle Toes and Bob's canvas shoes do not infringe. While it is too early to predict the outcome of these legal proceedings or whether an adverse result in either or both of them would have a material adverse impact on the Company's operations or financial position, the Company believes it has meritorious defenses and intend to defend these legal matters vigorously.

In accordance with U.S. GAAP, the Company records a liability in its consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings are inherently difficult to predict, particularly when the matters are in the procedural stages or with unspecified or indeterminate claims for damages, potential penalties, or fines. Accordingly, the Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the consolidated financial statements as of December 31, 2016, nor is it possible to estimate what litigation-related costs will be in the future.

(8) STOCKHOLDERS' EQUITY

The authorized capital stock of the Company consists of 500 million shares of Class A Common Stock, par value $.001 per share, 75 million shares of Class B Common Stock, par value $.001 per share, and 10 million shares of preferred stock, $.001 par value per share.

During 2016, 2015 and 2014, certain Class B stockholders converted 1,733,270 shares, 5,131,296 shares and 1,199,328 shares, respectively, of Class B Common Stock to Class A Common Stock (see Note 10 – Earnings Per Share).

(9) NONCONTROLLING INTERESTS

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

HF Logistics-SKX, LLC	December 31, 2016	December 31, 2015
Current assets	$ 2,006	$ 2,111
Non-current assets	108,668	113,928
Total assets	$ 110,674	$ 116,039
Current liabilities	$ 2,469	$ 2,461
Non-current liabilities	68,168	69,951
Total liabilities	$ 70,637	$ 72,412

Distribution joint ventures (1)	**December 31, 2016**	**December 31, 2015**
Current assets	$ 289,227	$ 154,060
Non-current assets	49,229	34,782
Total assets	$ 338,456	$ 188,842
Current liabilities	$ 132,518	$ 68,198
Non-current liabilities	2,214	62
Total liabilities	$ 134,732	$ 68,260

(1) *Distribution joint ventures include Skechers Limited (Israel), Skechers China Limited, Skechers Korea Limited, Skechers Southeast Asia Limited, Skechers (Thailand) Limited, Skechers Retail India Private Limited, and Skechers South Asia Private Limited.*

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

	Year Ended December 31,		
	2016	**2015**	**2014**
Net earnings attributable to non-controlling interests	$ 41,866	$ 29,135	$ 13,385
Distributions to:			
HF Logistics-SKX, LLC	4,091	38,092	3,700
Skechers China Limited	11,922	450	350
Skechers Southeast Asia Limited	1,280	—	—
Skechers Hong Kong Limited	451	—	—
Contributions from:			
India distribution joint ventures	2,943	2,273	504
Skechers Korea Co., Ltd.	8,273	—	—
Skechers Footwear Ltd. (Israel)	2,764	—	—

(10) EARNINGS PER SHARE

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

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

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

Basic earnings per share	2016	2015	2014
Net earnings attributable to Skechers U.S.A., Inc.	$ 243,493	$ 231,912	$ 138,811
Weighted average common shares outstanding	154,169	152,847	151,839
Basic earnings per share attributable to Skechers U.S.A., Inc.	$ 1.58	$ 1.52	$ 0.91

Diluted earnings per share	2016	2015	2014
Net earnings attributable to Skechers U.S.A., Inc.	$ 243,493	$ 231,912	$ 138,811
Weighted average common shares outstanding	154,169	152,847	151,839
Dilutive effect of nonvested shares	915	1,353	1,240
Weighted average common shares outstanding	155,084	154,200	153,079
Diluted earnings per share attributable to Skechers U.S.A., Inc.	$ 1.57	$ 1.50	$ 0.91

There were 346,912 shares excluded from the computation of diluted earnings per share for the year ended December 31, 2016. There were no shares excluded from the computation of diluted earnings per share for the years ended December 31, 2015 and 2014.

(11) STOCK COMPENSATION

(a) Incentive Award Plan

On April 16, 2007, the Company's Board of Directors adopted the 2007 Incentive Award Plan (the "2007 Plan"), which became effective upon approval by the Company's stockholders on May 24, 2007. Also on May 24, 2007, the Company's Board of Directors terminated the Company's previous 1998 Stock Option, Deferred Stock and Restricted Stock Plan, with no further granting of awards being permitted thereafter. A total of 22,500,000 shares of Class A Common Stock are reserved for issuance under the 2007 Plan, which provides for grants of ISOs, non-qualified stock options, restricted stock and various other types of equity awards as described in the plan to the employees, consultants and directors of the Company and its subsidiaries. The 2007 Plan is administered by the Compensation Committee of the Company's Board of Directors.

A summary of the status and changes of nonvested shares related to the 2007 Plan as of and for the period ended December 31, 2016 is presented below:

	SHARES	WEIGHTED-AVERAGE GRANT-DATE FAIR VALUE
Nonvested at January 1, 2014	828,498	$ 6.68
Granted	3,277,500	15.67
Vested/Released	(291,999)	6.66
Cancelled	(22,500)	6.25
Nonvested at December 31, 2014	3,791,499	14.46
Granted	40,500	29.83
Vested/Released	(1,106,499)	11.81
Nonvested at December 31, 2015	2,725,500	15.77
Granted	1,444,000	31.69
Vested/Released	(1,108,336)	12.32
Cancelled	(18,000)	17.81
Nonvested at December 31, 2016	3,043,164	24.57

As of December 31, 2016, a total of 9,682,643 shares remain available for grant as equity awards under the 2007 Plan.

The Company recognized in the consolidated statements of earnings compensation expense of $23.1 million, $18.3 million and $8.7 million and related excess income tax benefits of $4.7 million, $8.0 million, and $1.4 million for grants under its 2007 Plan and 2008 ESPP compensation plans for the years ended December 31, 2016, 2015, and 2014, respectively. Nonvested shares generally vest over a graded vesting schedule from one to four years from the date of grant. There was $57.0 million of unrecognized compensation cost related to nonvested common shares as of December 31, 2016, which is expected to be recognized over a weighted average period of 2.2 years. The total fair value of shares vested during the period ended December 31, 2016 and 2015 was $13.7 million and $13.1 million, respectively.

(b) Stock Purchase Plan

On April 16, 2007, the Company's Board of Directors adopted the 2008 Employee Stock Purchase Plan (the "2008 ESPP"), and the Company's stockholders approved the 2008 ESPP on May 24, 2007. The 2008 ESPP became effective on January 1, 2008, and the Company's Board of Directors terminated the 1998 ESPP as of such date, with no additional granting of rights being permitted under the 1998 ESPP. The 2008 ESPP provides that a total of 9,000,000 shares of Class A Common Stock are reserved for issuance under the plan. The 2008 ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The terms of the 2008 ESPP permit eligible employees to purchase Class A Common Stock at six-month intervals through payroll deductions, which may not exceed 15% of an employee's compensation. The price of Class A Common Stock purchased under the 2008 ESPP is 85% of the lower of the fair market value of the Class A Common Stock at the beginning of each six-month offering period or on the applicable purchase date. Employees may end their participation in an offering at any time during the offering period. The 2008 ESPP is administered by the Compensation Committee of the Company's Board of Directors.

During 2016, 2015 and 2014, 220,844 shares, 223,892 shares and 306,459 shares were issued under the 2008 ESPP for which the Company received approximately $5.1 million, $4.3 million and $3.4 million, respectively.

(12) INCOME TAXES

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

	2016	2015	2014
Federal:			
Current	$ 45,258	$ 45,095	$ 7,677
Deferred	(3,961)	2,774	23,659
Total federal	41,297	47,869	31,336
State:			
Current	3,406	2,506	2,060
Deferred	(49)	1,798	529
Total state	3,357	4,304	2,589
Foreign:			
Current	31,046	21,204	5,399
Deferred	(1,575)	(927)	(140)
Total foreign	29,471	20,277	5,259
Total income taxes	$ 74,125	$ 72,450	$ 39,184

The Company's provision for income tax expense and effective income tax rate are significantly impacted by the mix of the Company's domestic and foreign earnings (loss) before income taxes. In the non-U.S. jurisdictions in which the Company has operations, the applicable statutory rates are generally significantly lower than in the U.S., ranging from 0% to 34%. The Company's provision for income tax expense was calculated using the applicable statutory rate for each jurisdiction applied to the Company's pre-tax earnings (loss) in each jurisdiction, while the Company's effective tax rate is calculated by dividing income tax expense by earnings before income taxes.

The Company's earnings (loss) before income taxes and income tax expense for 2016, 2015 and 2014 are as follows (in thousands):

	Years Ended December 31,					
	2016		2015		2014	
Income tax jurisdiction	Earnings (loss) before income taxes	Income tax expense	Earnings (loss) before income taxes	Income tax expense	Earnings (loss) before income taxes	Income tax expense
United States	$ 105,589	$ 44,654	$ 136,726	$ 52,173	$ 82,778	$ 32,500
Peoples Republic of China ("China")	72,584	11,720	49,027	11,084	15,201	1,179
Jersey (1)	146,880	—	123,721	—	77,555	—
Non-benefited loss operations (2)	(16,189)	12	(16,719)	164	(13,021)	—
Other jurisdictions (3)	50,620	17,739	40,742	9,029	28,867	5,505
Earnings before income taxes	$ 359,484	$ 74,125	$ 333,497	$ 72,450	$ 191,380	$ 39,184
Effective tax rate (4)		20.6%		21.7%		20.5%

(1) *Jersey does not assess income tax on corporate net earnings.*

(2) *Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being reported because of the provision of offsetting valuation allowances: Brazil, India, Israel, Japan, Panama, Poland, Romania, and South Korea.*

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

(4) *The effective tax rate is calculated by dividing income tax expense by earnings before income taxes.*

For 2016, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 39%, primarily because of earnings from foreign operations in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2016, as reflected in the table above, earnings (loss) before income taxes in the U.S. were $105.6 million, with income tax expense of $44.7 million, which is an average rate of 42.3%. Earnings (loss) before income taxes in non-U.S. jurisdictions were $253.9 million, with an aggregate income tax expense of $29.5 million, which is an average rate of 11.6%. Combined, this results in consolidated earnings before income taxes for the period of $359.5 million, and consolidated income tax expense for the period of $74.1 million, resulting in an effective tax rate of 20.6%. For 2016, $253.9 million in earnings before income tax earned outside the U.S., $146.9 million was earned in Jersey, which does not impose a tax on corporate earnings. In Jersey, earnings before income taxes increased by $23.2 million, or 18.7%, to $146.9 million in 2016 from $123.7 million in 2015. This increase was primarily attributable to the Company experiencing an increase of $344.9 million in net sales in the "Other international" geographic area for 2016 (see Note 17 – Segment and Geographic Reporting), which resulted in a significant increase in earnings before income taxes in Jersey from royalties and commissions under the terms of inter-subsidiary agreements. Due to the scalability of our operations, increases in net sales in the "Other international" geographic area from 2015 to 2016 resulted in a disproportionately greater increase in earnings before income taxes in Jersey. In addition, there were foreign losses of $16.2 million for which no tax benefit was recognized during the year ended December 31, 2016 because of the provision of offsetting valuation allowances, but in which nonrefundable withholding taxes were paid. Individually, none of the other foreign jurisdictions included in "Other jurisdictions" in the table above had earnings greater than 5% of the Company's consolidated earnings (loss) before taxes in any of the years shown. Unremitted earnings of non-U.S. subsidiaries are expected to be reinvested outside of the U.S. indefinitely. Such earnings would become taxable upon the sale or liquidation of these subsidiaries or upon the remittance of dividends.

As of December 31, 2016, the Company had approximately $718.5 million in cash and cash equivalents, of which $368.4 million, or 51.3%, was held outside the U.S. Of the $368.4 million held by the Company's non-U.S. subsidiaries, approximately $33.4 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable non-U.S. income and withholding taxes in excess of the amounts accrued in the Company's consolidated financial statements as of December 31, 2016. The Company's cash and cash equivalents held in the U.S. and cash provided from operations are sufficient to meet the Company's liquidity needs in the U.S. for the next twelve months and the Company does not expect to repatriate any of the funds presently designated as indefinitely reinvested outside the U.S. Because of the need for cash for operating capital and continued overseas expansion, the Company also does not foresee the need for any of its foreign subsidiaries to distribute funds up to an intermediate foreign parent company in any form of taxable dividend. Under current applicable tax laws, if the Company chooses to repatriate some or all of the funds designated as indefinitely reinvested outside the U.S., the amount repatriated would be subject to U.S. income taxes and applicable non-U.S. income and withholding taxes. As of December 31, 2016 and 2015, U.S. income taxes have not been provided on cumulative total earnings of $699.6 million and $482.7 million, respectively.

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

	2016	2015	2014
Expected income tax expense	$ 125,819	$ 116,724	$ 66,981
State income tax, net of federal benefit	2,335	2,011	1,032
Rate differential on foreign income	(58,508)	(44,541)	(27,364)
Change in unrecognized tax benefits	135	(2,233)	(2,717)
Non-deductible expenses	2,330	(350)	288
Other	575	285	3,333
Change in valuation allowance	1,439	554	(2,369)
Total provision for income taxes	$ 74,125	$ 72,450	$ 39,184
Effective tax rate	20.6%	21.7%	20.5%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2016 and 2015 are presented below (in thousands):

	2016	2015
Deferred tax assets:		
Inventory adjustments	$ 6,985	$ 6,249
Accrued expenses	29,094	17,619
Allowances for bad debts and chargebacks	4,837	6,972
Loss carryforwards	20,891	23,073
Business credit carryforward	5,031	5,214
Share-based compensation	5,993	3,628
Valuation allowance	(19,527)	(18,088)
Total deferred tax assets	53,304	44,667
Deferred tax liabilities:		
Prepaid expenses	8,422	8,566
Depreciation on property, plant and equipment	19,251	22,406
Total deferred tax liabilities	27,673	30,972
Net deferred tax assets	$ 25,631	$ 13,695

The Company believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

State tax credit and net operating loss carry-forward amounts remaining as of December 31, 2016 were $5.0 million and $31.7 million, respectively. State tax credit and net operating loss carry-forward amounts remaining as of December 31, 2015 were $8.8 million and $33.3 million, respectively. These tax credit and net operating loss carry-forward amounts don't begin to expire until 2028 and 2021, respectively. As of December 31, 2016 and 2015, no valuation allowance against the related deferred tax asset have been recorded for these credit and loss and credit carry-forwards as it is believed the carry-forwards will be fully utilized in reducing future taxable income.

As of December 31, 2016 and 2015, the Company had combined foreign net operating loss carry-forwards available to reduce future taxable income of approximately $69.4 million and $66.8 million, respectively. Some of these net operating losses expire beginning in 2017; however others can be carried forward indefinitely. As of December 31, 2016 and 2015, valuation allowances of $16.7 million and $16.5 million, respectively, had been recorded against the related deferred tax assets for those loss carry-forwards that are not more likely than not to be fully utilized in reducing future taxable income.

The balance of unrecognized tax benefits, included in prepaid expenses in the consolidated balance sheets, increased by $0.5 million during the year. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2016	2015
Beginning balance	$ 6,143	$ 7,936
Additions for current year tax positions	1,069	888
Additions for prior year tax positions	138	—
Reductions for prior year tax positions	—	(1,099)
Settlement of uncertain tax positions	(616)	—
Reductions related to lapse of statute of limitations	(126)	(1,582)
Ending balance	$ 6,608	$ 6,143

If recognized, $5.5 million of unrecognized tax benefits would be recorded as a reduction in income tax expense.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of income tax expense and totaled $0.4 million, $0.6 million, and $0.2 million for the years ended December 31, 2016, 2015, and 2014, respectively. Accrued interest and penalties were $1.1 million and $1.5 million as of December 31, 2016 and 2015, respectively.

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

As of December 31, 2016, the Company's tax filings are generally subject to examination in the U.S. and most foreign jurisdictions for years ending on or after December 31, 2012, and in several Asian and European tax jurisdictions for years ending on or after December 31, 2006. During the year, the Company reduced the balance of 2016 and prior year unrecognized tax benefits by $0.1 million as a result of expiring statutes. It is reasonably possible that certain domestic and foreign statutes will expire during the next twelve months which would reduce the balance of 2016 and prior year unrecognized tax benefits by $0.4 million.

The Company is currently under examination by a number of states and certain foreign jurisdictions. During the year ended December 31, 2016, there was a $0.6 million reduction in the balance of 2016 and prior year unrecognized tax benefits due to settlements of examinations. It is reasonably possible that certain state and foreign examinations could be settled during the next twelve months which would reduce the balance of 2016 and prior year unrecognized tax benefits by $0.9 million.

In November 2015, the FASB issued ASU No. 2015-17, *"Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes"* ("ASU 2015-17"), which amends the guidance requiring companies to separate deferred income tax liabilities and assets into current and non-current amounts in a classified balance sheet. This accounting guidance simplifies the presentation of deferred income taxes, such that deferred tax liabilities and assets are classified as non-current in a classified balance sheet. ASU 2015-17 will be effective for annual and interim reporting periods beginning January 1, 2017, with early adoption permitted. In the first quarter of 2016, the Company early adopted ASU 2015-17 on a retrospective basis. For all periods presented, deferred income taxes are reported as "Deferred tax assets" or "Deferred tax liabilities" on the condensed consolidated balance sheets. Prior to adoption, the Company reported deferred income taxes in either “Deferred tax assets,” “Other assets,” or “Other long-term liabilities” in the consolidated balance sheets, depending on whether the net current deferred income taxes and net non-current deferred income taxes were in an asset or liability position. The change in presentation as of December 31, 2015 resulted in a reduction of current deferred tax assets and non-current deferred tax liabilities, and an increase of non-current deferred tax assets. The adoption of ASU 2015-17 did not have a material impact on the Company’s consolidated financial statements, financial condition or results of operations.

(13) EMPLOYEE BENEFIT PLAN

The Company has a 401(k) profit sharing plan covering all employees who are 21 years of age and have completed six months of service. Employees may contribute up to 15.0% of annual compensation. Company contributions to the plan are discretionary and vest over a six year period. The Company did not make a contribution to the plan for the years ended December 31, 2016, 2015 and 2014, respectively.

In May 2013, the Company established the Skechers U.S.A., Inc. Deferred Compensation Plan (the “Plan”), which allows eligible employees to defer compensation up to a maximum amount to a future date on a nonqualified basis. The Plan provides for the Company to make discretionary contributions to participating employees, which will be determined by the Company’s Compensation Committee. The Company did not make a contribution to the plan for the year ended December 31, 2016, 2015 or 2014. The value of the deferred compensation is recognized based on the fair value of the participants’ accounts as determined monthly. The Company has established a rabbi trust (the “Trust”) as a reserve for the benefits payable under the Plan. The assets of the Trust and deferred liabilities are presented in the Company’s consolidated balance sheets.

(14) BUSINESS AND CREDIT CONCENTRATIONS

The Company generates a significant portion of its sales in the United States; however, several of its products are sold into various foreign countries, which subject the Company to the risks of doing business abroad. In addition, the Company operates in the footwear industry, which is impacted by the general economy, and its business depends on the general economic environment and levels of consumer spending. Changes in the marketplace may significantly affect the Company’s estimates and its performance. The Company performs regular evaluations concerning the ability of customers to satisfy their obligations and provides for estimated doubtful accounts. Domestic accounts receivable, which generally do not require collateral from customers, amounted to $169.4 million and $180.2 million before allowances for bad debts and sales returns, and chargebacks at December 31, 2016 and 2015, respectively. Foreign accounts receivable, which are generally collateralized by letters of credit, amounted to $199.1 million and $188.0 million before allowance for bad debts, sales returns, and chargebacks at December 31, 2016 and 2015, respectively. International net sales amounted to $1.64 billion, $1.27 billion and $819.3 million for the years ended December 31, 2016, 2015 and 2014, respectively. The Company’s credit losses charged to expense for the years ended December 31, 2016, 2015 and 2014 were $12.7 million, $5.2 million and $11.8 million, respectively. In addition, the Company’s recorded sales return and allowance expense for the years ended December 31, 2016, 2015 and 2014 were $16.9 million, $2.3 million and $2.3 million, respectively.

Assets located outside the United States consist primarily of cash, accounts receivable, inventory, property, plant and equipment, and other assets. Net assets held outside the United States were $1.06 billion and $773.5 million at December 31, 2016 and 2015, respectively.

During 2016, 2015 and 2014, no customer accounted for 10.0% or more of net sales. No customer accounted for more than 10% of net trade receivables at December 31, 2016 or 2014. As of December 31, 2015, one customer accounted for 10.6% of gross trade receivables. During 2016, 2015 and 2014, net sales to the five largest customers were approximately 11.3%, 14.6% and 15.7%, respectively.

The Company’s top five manufacturers produced the following for the years ended December 31, 2016, 2015 and 2014, respectively:

	Percentage of Total Production Years Ended December 31,		
	2016	**2015**	**2014**
Manufacturer #1	22.9 %	31.5 %	37.5 %
Manufacturer #2	10.1 %	9.1 %	6.1 %
Manufacturer #3	8.8 %	7.3 %	5.7 %
Manufacturer #4	4.9 %	5.0 %	4.9 %
Manufacturer #5	4.3 %	3.6 %	4.7 %
	51.0 %	56.5 %	58.9 %

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

(15) RELATED PARTY TRANSACTIONS

The Company paid approximately $111,000, $180,000, and $160,000 during 2016, 2015 and 2014, respectively, to the Manhattan Inn Operating Company, LLC ("MIOC") for lodging, food and events, including the Company's holiday party at the Shade Hotel in Manhattan Beach, which is owned and operated by MIOC. Michael Greenberg, President and a director of the Company, owns a 12% beneficial ownership interest in MIOC, and three other officers, directors and senior vice presidents of the Company own in aggregate an additional 5% beneficial ownership in MIOC. The Company had no outstanding accounts receivable or payable with MIOC, the Shade Hotel in Manhattan Beach at December 31, 2016 or 2015.

The Company paid approximately $110,000 during 2016 to the Redondo Beach Hospitality Company, LLC ("RBHC") for lodging, food and events, including the Company's 2016 holiday party at the Shade Hotel in Redondo Beach, which is owned and operated by RBHC. Michael Greenberg, President and a director of the Company, owns a 5% beneficial ownership interest in RBHC, and three other officers, directors and senior vice presidents of the Company own in aggregate an additional 3% beneficial ownership in RBHC. The Company had no outstanding accounts receivable or payable with RBHC or the Shade Hotel in Redondo Beach, at December 31, 2016 or 2015.

On July 29, 2010, the Company formed the Skechers Foundation (the "Foundation"), which is a 501(c)(3) non-profit entity that does not have any shareholders or members. The Foundation is not a subsidiary of, and is not otherwise affiliated with the Company, and the Company does not have a financial interest in the Foundation. However, two officers and directors of the Company, Michael Greenberg, the Company's President, and David Weinberg, the Company's Chief Operating Officer and Chief Financial Officer, are also officers and directors of the Foundation. During the year ended December 31, 2016, the Company made contributions of $1.0 million to the Foundation. During the year ended December 31, 2015, and 2014 the Company did not make any contributions to the Foundation.

The Company had receivables from officers and employees of $0.8 million and $1.3 million at December 31, 2016 and 2015, respectively. These amounts relate to travel advances, incidental personal purchases on Company-issued credit cards and employee loans. These receivables are short-term and are expected to be repaid within a reasonable period of time. The Company had no other significant transactions with or payables to officers, directors or significant shareholders of the Company.

(16) SUBSEQUENT EVENTS

The Company has evaluated events subsequent to December 31, 2016, to assess the need for potential recognition or disclosure in this filing. Based on this evaluation, it was determined that no subsequent events occurred that require recognition in the consolidated financial statements.

(17) SEGMENT AND GEOGRAPHIC REPORTING

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

	2016	2015	2014
Net sales			
Domestic wholesale	$ 1,199,832	$ 1,219,779	$ 997,994
International wholesale	1,391,235	1,094,395	689,195
Retail	972,244	833,149	690,372
Total	$ 3,563,311	$ 3,147,323	$ 2,377,561

	2016	2015	2014
Gross profit			
Domestic wholesale	$ 454,088	$ 471,104	$ 367,980
International wholesale	616,110	454,665	292,722
Retail	564,398	498,239	411,203
Total	$ 1,634,596	$ 1,424,008	$ 1,071,905

	2016	2015
Identifiable assets		
Domestic wholesale	$ 1,161,719	$ 1,086,554
International wholesale	954,874	713,424
Retail	277,077	239,900
Total	$ 2,393,670	$ 2,039,878

	2016	2015	2014
Additions to property, plant and equipment			
Domestic wholesale	$ 33,677	$ 38,080	$ 9,655
International wholesale	44,286	37,909	18,899
Retail	41,508	42,155	28,351
Total	$ 119,471	$ 118,144	$ 56,905

Geographic Information

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

	2016	2015	2014
Net Sales (1)			
United States	$ 1,920,051	$ 1,876,201	$ 1,558,226
Canada	130,555	103,268	85,139
Other international (2)	1,512,705	1,167,854	734,196
Total	$ 3,563,311	$ 3,147,323	$ 2,377,561

	2016	2015
Property, plant and equipment, net		
United States	$ 374,459	$ 356,704
Canada	10,410	8,447
Other international (2)	109,604	70,756
Total	$ 494,473	$ 435,907

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

(2) *Other international consists of Asia, Central America, Europe, the Middle East, and South America.*

In response to the State Department’s trade restrictions with Sudan and Syria, we do not authorize or permit any distribution or sales of our product in these countries, and we are not aware of any current or past distribution or sales of our product in Sudan or Syria.

(18) SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized unaudited financial data are as follows (in thousands):

2016	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Net sales	$ 978,794	$ 877,810	$ 942,417	$ 764,290
Gross profit	432,152	416,254	429,978	356,212
Net earnings	109,639	84,009	76,542	15,169
Net earnings attributable to Skechers U.S.A., Inc.	97,612	74,107	65,110	6,664
Net earnings per share:				
Basic	0.63	0.48	0.42	0.04
Diluted	0.63	0.48	0.42	0.04

2015	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Net sales	$ 767,997	$ 800,464	$ 856,179	$ 722,683
Gross profit	332,540	374,608	387,006	329,854
Net earnings	61,658	87,065	73,834	38,490
Net earnings attributable to Skechers U.S.A., Inc.	56,080	79,782	66,602	29,448
Net earnings per share:				
Basic	0.37	0.52	0.44	0.19
Diluted	0.37	0.52	0.43	0.19

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this annual report on Form 10-K are certifications of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

With the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2016, based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control – Integrated Framework (2013),* our management has concluded that our internal control over financial reporting is effective as of such time.

Our independent registered public accountants, BDO USA, LLP, audited the consolidated financial statements included in this annual report on Form 10-K and have issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2016, which is set forth below.

INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting during the fourth quarter of 2016. The results of our evaluation are discussed above in Management's Report on Internal Control Over Financial Reporting.

Report of Independent Registered Public Accounting Firm

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

We have audited Skechers U.S.A., Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control –Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Skechers U.S.A., Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Skechers U.S.A., Inc. and subsidiaries' maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Skechers U.S.A., Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income, equity, cash flows, and schedule for each of the three years in the period ended December 31, 2016 and our report dated March 1, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Los Angeles, CA
March 1, 2017

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2016 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2016 fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2016 fiscal year.

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

The information required by this Item 13 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2016 fiscal year.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2016 fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements: See “Index to Consolidated Financial Statements and Financial Statement Schedule” in Part II, Item 8 on page 44 of this annual report on Form 10-K.
2. Financial Statement Schedule: See “Schedule II—Valuation and Qualifying Accounts” on page 75 of this annual report on Form 10-K.
3. Exhibits: The exhibits listed in the accompanying “Index to Exhibits” are filed or incorporated by reference as part of this Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Years Ended December 31, 2016, 2015, and 2014

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO REVENUE COSTS AND EXPENSES	DEDUCTIONS AND WRITE-OFFS	BALANCE AT END OF PERIOD
Year-ended December 31, 2014				
Allowance for chargebacks	$ 2,490	$ 5,530	$ (1,469)	$ 6,551
Allowance for doubtful accounts	5,980	6,284	(6,823)	5,441
Reserve for sales returns and allowances	7,456	2,339	(780)	9,015
Reserve for shrinkage	266	1,292	(1,220)	338
Reserve for obsolescence	3,485	5,656	(6,140)	3,001
Year-ended December 31, 2015				
Allowance for chargebacks	$ 6,551	$ 3,703	$ (3,189)	$ 7,065
Allowance for doubtful accounts	5,441	1,538	(1,026)	5,953
Reserve for sales returns and allowances	9,015	2,279	(52)	11,242
Reserve for shrinkage	338	2,014	(1,945)	407
Reserve for obsolescence	3,001	10,321	(10,041)	3,281
Year-ended December 31, 2016				
Allowance for chargebacks	$ 7,065	$ 10,882	$ (6,973)	$ 10,974
Allowance for doubtful accounts	5,953	1,837	(2,170)	5,620
Reserve for sales returns and allowances	11,242	18,101	(4,290)	25,053
Reserve for shrinkage	407	2,396	(2,261)	542
Reserve for obsolescence	3,281	22,867	(15,220)	10,928

See accompanying report of independent registered public accounting firm

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
3.1	Amended and Restated Certificate of Incorporation dated April 29, 1999 (incorporated by reference to exhibit number 3.1 of the Registrant's Form 10-Q for the quarter ended September 30, 2015).
3.1(a)	Amendment to Amended and Restated Certificate of Incorporation dated September 24, 2015 (incorporated by reference to exhibit number 3.2 of the Registrant's Form 10-Q for the quarter ended September 30, 2015).
3.2	Bylaws dated May 28, 1998 (incorporated by reference to exhibit number 3.2 of the Registrant's Registration Statement on Form S-1 (File No. 333-60065) filed with the Securities and Exchange Commission on July 29, 1998).
3.2(a)	Amendment to Bylaws dated as of April 8, 1999 (incorporated by reference to exhibit number 3.2(a) of the Registrant's Form 10-K (File No. 001-14429) for the year ended December 31, 2005).
3.2(b)	Second Amendment to Bylaws dated as of December 18, 2007 (incorporated by reference to exhibit number 3.1 of the Registrant's Form 8-K (File No. 001-14429) filed with the Securities and Exchange Commission on December 20, 2007).
4.1	Form of Specimen Class A Common Stock Certificate (incorporated by reference to exhibit number 4.1 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on May 12, 1999).
10.1**	Skechers U.S.A., Inc. Deferred Compensation Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 3, 2013).
10.2**	2006 Annual Incentive Compensation Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 29, 2016).
10.2(a)**	First Amendment to the 2006 Annual Incentive Compensation Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 29, 2016).
10.3**	2007 Incentive Award Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K (File No. 001-14429) filed with the Securities and Exchange Commission on May 24, 2007).
10.4**	Form of Restricted Stock Agreement under 2007 Incentive Award Plan (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-K (File No. 001-14429) for the year ended December 31, 2007).
10.5**	2008 Employee Stock Purchase Plan (incorporated by reference to exhibit number 10.2 of the Registrant's Form 8-K (File No. 001-14429) filed with the Securities and Exchange Commission on May 24, 2007).
10.5(a)**	Amendment No. 1 to 2008 Employee Stock Purchase Plan (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q (File No. 001-14429) for the quarter ended June 30, 2010).
10.5(b)**	Amendment No. 2 to 2008 Employee Stock Purchase Plan (incorporated by reference to exhibit number 3.3 of the Registrant's Form 10-Q for the quarter ended September 30, 2015).
10.6**	Indemnification Agreement dated June 7, 1999 between the Registrant and its directors and executive officers (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-K (File No. 001-14429) for the year ended December 31, 1999).
10.6(a)**	List of Registrant's directors and executive officers who entered into Indemnification Agreement referenced in Exhibit 10.6 with the Registrant (incorporated by reference to exhibit number 10.6(a) of the Registrant's Form 10-K (File No. 001-14429) for the year ended December 31, 2005).
10.7	Registration Rights Agreement dated June 9, 1999, between the Registrant, the Greenberg Family Trust and Michael Greenberg (incorporated by reference to exhibit number 10.7 of the Registrant's Form 10-Q (File No. 001-14429) for the quarter ended June 30, 1999).
10.8	Tax Indemnification Agreement dated June 8, 1999, between the Registrant and certain shareholders (incorporated by reference to exhibit number 10.8 of the Registrant's Form 10-Q (File No. 001-14429) for the quarter ended June 30, 1999).
10.9**	Employment Agreement, executed August 7, 2015, effective as of January 1, 2015, between the Registrant and Michael Greenberg (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.10	Credit Agreement dated June 30, 2015, by and among the Registrant, certain of its subsidiaries who are also borrowers under the Agreement, certain of its subsidiaries who are guarantors under the Agreement, and Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on July 7, 2015).
10.11	Amended and Restated Limited Liability Company Agreement dated April 12, 2010 between Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, regarding the ownership and management of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company (incorporated by reference to exhibit number 10.11 of the Registrant's Form 10-K (File No. 001-14429) for the year ended December 31, 2011).
10.11(a)	First Amendment to Amended and Restated Limited Liability Company Agreement dated August 11, 2015 by and between Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, regarding the ownership and management of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 17, 2015).
10.12	Amended and Restated Loan Agreement dated as of August 12, 2015, by and among HF Logistics-SKX T1, LLC, which is a wholly owned subsidiary of a joint venture entered into between HF Logistics I, LLC, and Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, Bank of America, N.A., as administrative agent and as a lender, and CIT Bank, N.A. and Raymond James Bank, N.A., as lenders (incorporated by reference to exhibit number 10.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 17, 2015).
10.13	Lease Agreement dated September 25, 2007 between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K (File No. 001-14429) filed with the Securities and Exchange Commission on September 27, 2007).
10.13(a)	First Amendment to Lease Agreement, dated December 18, 2009, between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-Q (File No. 001-14429) for the quarter ended March 31, 2010).
10.13(b)	Second Amendment to Lease Agreement, dated April 12, 2010, between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q (File No. 001-14429) for the quarter ended September 30, 2010).
10.13(c)	Assignment of Lease Agreement, dated April 12, 2010, between HF Logistics I, LLC and HF Logistics-SKX T1, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q (File No. 001-14429) for the quarter ended September 30, 2010).
10.13(d)	Third Amendment to Lease Agreement, dated August 18, 2010, between the Registrant and HF Logistics-SKX T1, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-Q (File No. 001-14429) for the quarter ended September 30, 2010).
10.14	Lease Agreement, dated August 12, 2002, between Skechers International, a subsidiary of the Registrant, and ProLogis Belgium II SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.29 of the Registrant's Form 10-K (File No. 001-14429) for the year ended December 31, 2002).
10.14(a)	Addendum to Lease Agreement, dated January 19, 2006, between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.17(a) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.14(b)	Addendum 2 to Lease Agreement dated May 20, 2008 between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.2 of the Registrant's Form 8-K (File No. 001-14429) filed with Securities and Exchange Commission on May 27, 2008).
10.14(c)	Addendum 3 to Agreement dated June 11, 2013 and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.17(c) of the Registrant's Form 10-K for the year ended December 31, 2015).

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.14(d)	Addendum 4 to Agreement dated October 17, 2014 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.17(d) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.15	Lease Agreement dated May 20, 2008 between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III SPRL, regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K (File No. 001-14429) filed with the Securities and Exchange Commission on May 27, 2008).
10.15(a)	Addendum 1 to Lease Agreement, dated March 10, 2009, between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III BVBA, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.18(a) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.15(b)	Addendum 2 to Lease Agreement dated December 22, 2009 between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III BVBA, regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.18(b) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.15(c)	Addendum 3 to Agreement dated June 11, 2013 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.18(c) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.15(d)	Addendum 4 to Agreement dated October 17, 2014 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.18(d) of the Registrant's Form 10-K for the year ended December 31, 2015).
10.16	Lease Agreement dated October 17, 2014 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II BVBA, regarding ProLogis Park Liege Distribution Center III in Liege, Belgium (incorporated by reference to exhibit number 10.1 of the Registrant's Form 10-Q for the quarter ended March 31, 2015).
10.16(a)	Addendum to Agreement dated August 3, 2015 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA, and ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Centers I, II and III in Liege, Belgium (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).
10.17	Lease Agreement dated July 10, 2015 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II BVBA, regarding ProLogis Park Liege Distribution Center IV in Liege, Belgium (incorporated by reference to exhibit number 10.2 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).
10.17(a)	Addendum to Agreement dated August 3, 2015 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA, and ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Center IV in Liege, Belgium (incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).
10.18	Lease Agreement dated July 1, 2016 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, and Warehouse and Industrial Properties (W.I.P.) SA, regarding Liegistics Park 34, Avenue du Parc Industriel in Milmort, Belgium.
10.19	Lease Agreement dated November 17, 2015 by and between the Registrant and Omni Manhattan Towers Limited Partnership, regarding 1240 Rosecrans Avenue, Suites 300 and 400, Manhattan Beach, California.

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Chief Executive Officer pursuant Securities Exchange Act Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer pursuant Securities Exchange Act Rule 13a-14(a).
32.1***	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

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

*** In accordance with Item 601(b)(32)(ii) of Regulation S-K, this exhibit shall not be deemed "filed" for the purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Manhattan Beach, State of California on the 1st day of March 2017.

SKECHERS U.S.A., INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Robert Greenberg Robert Greenberg	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 1, 2017
/s/ Michael Greenberg Michael Greenberg	President and Director	March 1, 2017
/s/ David Weinberg David Weinberg	Executive Vice President, Chief Operating Officer, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 1, 2017
/s/ Jeffrey Greenberg Jeffrey Greenberg	Director	March 1, 2017
/s/ Geyer Kosinski Geyer Kosinski	Director	March 1, 2017
/s/ Morton D. Erlich Morton D. Erlich	Director	March 1, 2017
/s/ Richard Siskind Richard Siskind	Director	March 1, 2017
/s/ Thomas Walsh Thomas Walsh	Director	March 1, 2017
/s/ Rick Rappaport Rick Rappaport	Director	March 1, 2017

Exhibit 10.18

This English translation has been provided as a convenience and should be used for reference purposes only. In the event of a dispute, the French and Dutch versions remain the authoritative texts.

WAREHOUSE LEASE AGREEMENT

Liegistics Park 34
Avenue du Parc Industriel
4041 Milmort (Herstal)

All correspondence in connection with this lease agreement shall be sent to Warehouse and Industrial Properties SA c/o AG RE, Avenue des Arts 58, 1000 Brussels (see Article 27, Choice of Address for Notification)

BETWEEN

Warehouse and Industrial Properties (W.I.P.) SA, with registered office at 58 Avenue des Arts in 1000 Brussels, duly registered in the Belgian Crossroad Bank for Enterprises (*Banque-Carrefour des Entreprises/Kruispuntbank voor Ondernemingen*) under number 0403.348.566 (RLE Brussels),

lawfully represented for the purposes of this lease agreement by AG Real Estate SA, abbreviated as AG RE, with registerend office at 58 Avenue des Arts in 1000 Brussels, duly registered in the Belgian Crossroad Bank for Enterprises under number 0403.231.968, and authorised to represent the company as established by deed executed by and before Mr Damien Hisette, notary in Brussels, on 8 October 2015.

AG RE is hereby represented by:

(i) Sprl Amaury de Crombrugghe, represented by its permanent representative, Mr. Amaury de Crombrugghe ; and
(ii) Stijn Smekens

as established by deed executed by and before the aforementioned notary on 29 September 2015,

hereafter the **"Lessor"**, on the one hand

AND

SKECHERS European Distribution Center sprl, with registered office at Parc Industriel Hauts Sarts, zone 3, avenue du Parc Industriel 159 in 4041 Milmort, and duly registered in the Belgian Crossroad Bank for Enterprises under number 0478.543.758 (RLE Liège),

lawfully represented for the purposes of this lease agreement by Mr. David Weinberg, COO, CFO,

hereafter the **"Lessee"**, on the other hand.

AND, in its capacity of intervening party,
SKECHERS USA Inc, a limited liability company incorporated under the laws of Delaware (USA), with registered office at CA 90266 Manhattan Beach (USA), Manhattan Beach Boulevard, 228, and registered under the Commission File Number 001-1429 with I.R.S. Employer Identification No. 95-437615,

represented by Mr. David Weinberg, Director

hereinafter referred to as "Guarantor",

THE PARTIES HAVE AGREED AS FOLLOWS:

Article 1 – The Leased Premises

The Lessor hereby agrees to lease to the Lessee, and the Lessee hereby leases from the Lessor, the following described premises located at avenue du Parc Industriel in 4041 Milmort (Herstal), hereafter the **"Building"**:

- warehouse space of approximately 18,950 m² ; and
- attached offices of approximately 1,609 m², representing less than 10% of the total surface area of the Leased Premises

Hereafter collectively referred to as the **"Leased Premises"**.

The Leased Premises are outlined in the plan attached to this lease agreement as Exhibit 1.

The Lessee is familiar with the Leased Premises and does not require any further description. The premises are leased to the Lessee subject to any easement(s), whether positive or negative; the Lessee gaining the benefit or accepting the burden of the easement(s).The Lessor declares that to its knowledge, the Leased Premises are not subject to any other easements than those mentioned in articles 6.3 and 10 of the notarial purchase deed of the Leased Premises, and that the Lessor has not personally granted any other easements. The Lessee declares having reviewed those two articles of the notarial deed.

This Lease Agreement is subject to VAT in accordance with article 6 below.

Article 2 – Use

The Leased Premises are intended for warehousing and attached office purposes.

The warehouse space may be used for warehouse storage only. It cannot be used to transform or modify goods or as a company headquarters.

The Lessee is strictly prohibited from keeping or using within the Leased Premises any materials classified as hazardous or toxic to humans or that pose a threat to the security of the building. The parties agree that compliance with the use of the Leased Premises is a *sine qua non* condition of this Lease Agreement. Illegal warehousing activity is expressly prohibited. Storage of waste is strictly forbidden. Only waste produced by the Lessee's activities shall be authorised in the Leased Premises, provided that (i) this is not in violation of any applicable regulations or permit conditions, and (ii) this does not represent a health or safety hazard or a threat to the security of the building.

The Leased Premises cannot be used to engage in direct-to-consumer retail or artisan's activities of any kind. As a result, the Law of 30 April 1951 on Commercial Lease Agreements cannot be applied to this Lease Agreement.

The Lessee shall personally ensure that all administrative authorisations (including environmental permits) required to carry out the activities have been duly obtained, and that all sums, fees, taxes and other duties associated with the pursuit of the activities conducted in the Leased Premises have been duly paid, with no input or involvement from the Lessor.

Throughout the term of this lease, the Lessor agrees to use the premises for this purpose only.

The Lessee may not use the premises for any other purpose without the prior written consent of the Lessor. The Lessor reserves the right to deny such requests without providing any justification whatsoever.

The parties expressly agree that compliance with the use of the Leased Premises is a *sine qua non* condition of this lease, and that the Lessor would not have granted the lease agreement without this understanding.

In addition, the Lessee must comply in full with the provisions of Article 6 of the VAT Code
Failure to comply with any of these provisions shall qualify as gross negligence, entitling the Lessor to terminate the Lease Agreement with no advance notice or compensation of any kind.

Article 3 – Term

3.1
The term of this lease agreement shall be 10 years.

The lease term shall commence on 16 June 2016 ("Start Date") and shall end automatically on 15 June 2026, subject to the provisions of Articles 3.2 and 3.3 below.

3.2.
The Lessee is entitled to terminate the Lease Agreement upon expiry of an initial period of five years, subject to its giving 6 months' notice by registered letter with acknowledgement of receipt or by bailiff's writ. For the avoidance of any doubt, the parties indicate that, in order validly to terminate the contract after the first 5 years, notification of termination should have been given to the Lessor no later than 15 December 2020.

3.3.
At the expiry of the period mentioned in Article 3.1 above, this Lease Agreement shall be automatically extended for successive five-year periods, unless one of the parties explicitly terminates this Lease Agreement by registered letter with acknowledgement of receipt or by bailiff's writ no later than 6 months (i) before the end of the period referred to in Article 3.1 above or (ii) 6 months before the end of the relevant five-year extension period.

Article 4 – Rent

Total annual base rent has been set by mutual agreement at EUR 825,000 excluding VAT.

Lease payments are subject to VAT in the country where the warehouse space is located (in accordance with Article 47 of VAT directive n°112/2006, transposed by Article 21, §3, 1° of the VAT Code). Lease payments on warehousing space located in Belgium are subject to Belgian VAT at the current standard rate of 21%.

Rent is due monthly and payable in advance on the first day of every month, by standing order and into the account specified by the Lessor. The Lessor undertakes to invoice the rent by no later than the 1st of the month preceding the month to which the rent relates (by means of example, the Parties clarify that the invoice for the rent due for the month of July, must be issued to the Lessee at the latest on June 1st, and that this rent must be paid by the Lessee at the latest on July 1st).

Rent is payable on the due date, which also serves as formal notice.

The first rental payment shall be calculated *pro rata temporis* from the Start Date of the lease until the next due date. Rental payment due prior to the expiry of the lease term shall also be pro-rated, as the case may be.

The first rental payment is due upon signing the lease agreement.

Article 5 – Rent Adjustments

Rent payments shall be adjusted to reflect the cost of living, in accordance with Article 1728*bis* of the Belgian Civil Code.

The base rent shall be subject to indexation each year on the anniversary of the rent commencement date, automatically and *ipso jure*, to reflect changes in the health index, as per the formula below. The rent shall be adjusted upwards only.

$$\text{New rent} = \frac{\text{base rate x new index}}{\text{base index}}$$

where:

- The base rent shall be as stipulated in Article 4.
- The new index shall be the index of the month preceding the anniversary of the rent commencement date.
- The base index shall be the index of the month before the month during which this Lease Agreement was signed by the Parties, i.e. the health index of May 2016.

Any adjustment of the rent will be automatic and will take place as of right. For information and without any legal consequences, the Lessor will provide a simple notification to the Lessee of the New Rent amount.

Should the calculation and publication of the health index be interrupted or cease, the rent will be linked to the consumer price index. Should the Consumer Price Index be deleted or its calculation basis be amended, the parties expressly agree that the rent shall be based on the conversion rate published in the Belgian Official Journal or any other system replacing this Index. Whatever the formula used, however, the new rent can only be adjusted upwards.

If, for any reason whatsoever, no new index system has been put in place, the Lessor may raise the rent to reflect the increase in the cost of living. In this situation, the parties shall use their best endeavours to negotiate in good faith an alternative formula. In the absence of agreement, the adjustment method shall be determined by an expert appointed by the Justice of Peace having jurisdiction based on the location of the Premises.

The parties expressly agree that any waiver by the Lessor to rent increases resulting from this Article shall be made by written and signed acknowledgment of the Lessor.

<u>Article 6 – Value Added Tax</u>

§1. In accordance with Article 44, §3, 2°, a. of the Belgian VAT Code and pursuant to the VAT Authorities' Administrative Decision E.T. 84.364 of 29 September 1995, the Lease Agreement shall be subject to VAT at the going rate provided that the Leased Premises are used to store merchandise and the space dedicated to this activity represents at least 90% of the total surface area.

The VAT Authorities consider that the existence of a small office within the Leased Premises does not involve the application of the VAT exemption. However, this is subject to two conditions: (i) the surface area of the office is less than or equal to 10% of the total surface area of the Leased Premises, and (ii) the office serves to manage the warehousing activities.

§2. As the VAT Authorities are strict in applying the above-mentioned conditions, the Leased Premises shall be measured by the commencement date of the Lease Agreement at the latest in order to verify the surface area and ensure that the space designated for office use is within the 10% limit.

§3. Without prejudice to Article 2, if there is a change in the use of the Leased Premises which modifies the initial intended purpose, or if more than 10% of the total surface area is used as office space or less than 90% of the total surface area is used to store merchandise, the Lessee shall notify the Lessor of the change *sine die* by registered letter.

§4. In the event of non-compliance with the terms of §1 of this Article, all levies, fines and expenses incurred by the Lessor as a result of the Lessee's change in the use of the Leased Premises as per §3 above shall be charged to the Lessee. Likewise, if the Lease Agreement is considered VAT-exempt, the Lessor shall be legally obligated to refund the Tax Office all VAT deducted.

The levies, taxes, fines, interest and expenses payable by the Lessee shall be limited:

- if the Lessee has not notified the Lessor of the change in the use of the Leased Premises in accordance with §3 of this Article: to the VAT erroneously deducted by the Lessor plus the fine and any late payment interest charged by the Tax Authorities due to a change in the use of the Leased Premises as described in §3 ;

- if the Lessee has duly notified the Lessor of the change in the use of the Leased Premises in accordance with §3 of this Article: to the VAT payable to the Tax Authorities as the result of a change in VAT treatment, attributable to the Lessee, due to a change in the use of the Leased Premises as described in §3. The VAT due shall be calculated in accordance with the provisions applicable to "VAT adjustment" in section III of Royal Decree n° 3 of 10 December 1969 on deductions in the application of value-added tax.

§5. If there is a change in the VAT treatment referred to in §1 of this Article, either by the tax or legislative authorities, the Lessor and the Lessee shall make every effort to ensure that the Leased Premises are not excluded from the right to charge and deduct VAT.

§6. Any amounts claimable by the Lessor pursuant to the provisions of this Article shall be invoiced on top of the lease payments which have fallen due. In accordance with VAT legislation, these amounts qualify as compensation and as such are not subject to VAT.

Article 7 – Charges

A. Taxes and Duties

All real estate and other taxes, duties and contributions (notably taxes assessed against the property as a result of the Lessee's activities or occupancy, abandonment or neglect of the Leased Premises as well as any subsequent value-added tax, federal tax, city/town tax, provincial tax, regional tax or other tax levied by an existing or future public authority against the property) shall be borne by the Lessee.

To the extent that these taxes, duties and charges are claimed against the Lessor, the latter undertakes to invoice the amount immediately (and no later than 10 working days from the first request of the competent authority, and always with a copy of this first payment request from the competent authority) to the Lessee. The Lessor undertakes to proceed immediately to pay all taxes to the authority concerned, upon receipt of the corresponding payment from the Lessee.

The Lessor shall be entitled to compensation for any losses arising from the Lessee's failure to pay the taxes when due, except where the delay is due to a failure by the Lessor to meet its notification obligations as set out in the preceding paragraph. In such cases, late interest payments and fines occasioned by this failure shall be borne by the Lessor.

If, due to changes in legislation, the terms of paragraph 1 become inapplicable, the Lessee shall agree to a rent adjustment equal to the current rent plus the taxes due in the previous year, effective immediately.

B. Individual Expenses

The Lessee shall pay all utility costs (water, gas, electricity, telephone/telefax connections, etc.) as well as all related expenses such as meter rental costs and connection fees, consumption costs, etc. The Lessor and the Lessee shall make the necessary arrangements to transfer any pre-existing subscriptions from the Lessor to the Lessee, with effect from the Start Date as referred to in Article 3.1 above.

C. Common Service Charges

In addition to the rent indicated above, the Lessee shall pay the Lessor his/her contribution into the common service charges of the building, to the extent that these expenses are not included and already paid in the context of the individual subscriptions referred to section 7B above. These relate to the general costs and expenses related to the operation and maintenance of the building and in particular the costs and expenses related to: heating, hot and cold running water distribution, gas, electricity, telephone connections, the installation of utility meters (gas, electricity, water), subscription and rental fees for these utility meters in common areas, air conditioning, lifts and electric and electromechanical systems and the regular control and maintenance of fire protection equipment, remote management and control of energy usage, security access control, maintenance and cleaning of the building, its surroundings and the common areas including cleaning of the front, rear and side façades and all outside windows including those in privately used rooms, mechanical blinds, entrances, passageways, as well as the costs and expenses related to water/gas/electricity consumption in connection thereto, lighting of the common areas, building operating expenses, repairs to common areas, the salary for the building manager (as per agreement between the Lessor and the building manager) as well as other building personnel, insurance premiums paid by the Lessor to insure the building.

The above list of expenses is illustrative only and not exhaustive.

The Lessee's contribution to the common service charges of the building shall be calculated based on his/her proportional percentage in the building, as stipulated in Article 1 of this lease agreement.

Without prejudice to Article 8 below, the common service charges shall be paid in accordance with the terms stipulated in section "Service Charges Breakdown" (Exhibit 2).

Article 8 – Payment Terms – Late Payment

All rents, taxes, duties, expenses and any other amount due by the Lessee in accordance with this lease agreement are payable on their due date, which also serves as formal notice.

Rent is payable at the Lessor's address on the Lessor's designated account, until the Lessee is notified of other arrangements. Taxes and duties, expenses and any other amount due by the Lessee under this lease agreement are payable at the Lessor's address and by wire transfer to the Lessor's designated account, until the Lessee is notified of other arrangements.

Without prejudice to the Lessor's other rights and remedies against the Lessee and to the terms of Article 16 below, in the event of non-payment of rents, expenses and/or any other amount owed by the Lessee under this lease agreement on the due date, interest shall accrue *ipso jure* on the owed amount automatically and without prior formal notice as of the due date, at the legal interest rate applicable for late payment in commercial transactions (see Law of 2 August 2002).

Article 9 – Use of the Leased Premises

The Lessee agrees to act with the customary due diligence when occupying the premises.

The maximum allowable floor load capacity shall be 5,000 kg/m² for the warehouse space and 300 kg/m² for the attached offices, including the weight of the walls and room partitions.

After the initial contradictory inventory of fixtures, the Lessee shall be entitled to set up and install telephones, radios and televisions, teletypewriters and other communication and electronic equipment (including a camera surveillance system and an alarm system) inside (and, for the camera surveillance system and alarm system, also on the outside of) the Leased Premises, without the prior consent of the Lessor and without this resulting in any potential deterioration of the Leased Premises.

The setup, installation and use of such equipment shall be solely at the Lessee's own risk and expenses, and under his/her own responsibility. By signing this Lease Agreement, the Lessor marks its consent to the works cited in the preceding paragraphs.

If installing other equipment or systems than those cited in the preceding paragraphs requires alterations to the building or to the common areas, the Lessee shall obtain prior written consent from the Lessor. The Lessor nevertheless reserves the right to deny such requests, provided it does not do on an unreasonable basis.

Public auctions are strictly prohibited in the Leased Premises.

Article 10 – Initial Inventory of fixtures

A detailed report of the initial inventory of fixtures of the premises shall be drawn up contradictorily before the Lessee takes possession of the Leased Premises.

The inspection report shall be drawn up by a single expert mutually appointed by the parties or by two different experts, each representing one of the parties. If the experts are unable to reach an agreement, the earliest petitioner shall ask the justice of the peace established in the jurisdiction where the building is located to appoint a court expert. Payment of fees for the mutually appointed expert or the court expert shall be evenly divided between the two parties.

If significant alterations are made to the Leased Premises after the initial inventory of fixtures, each party reserves the right to request an addendum to that initial inventory to be drawn up by following the same procedure.

The inventory of fixtures report and any subsequent addendum shall form an integral part of this lease agreement.

Article 11 – Return of the Leased Premises – Inventory of fixtures of output

The Lessee agrees to return the Leased Premises to the Lessor at the end of the lease term, in the same condition as set forth in the initial inventory of fixtures except for damage due to normal wear, without prejudice to the provisions set forth in Article 12 below.

However, in the event of early termination of the lease agreement due to the Lessee's breach of contract (except the right of early termination as provided for in Article 3.2), the Lessee shall be deemed liable for all damage or deterioration to the property occurred during the lease term, including normal wear.

At the end of the lease term, an inventory of fixtures of output shall be drawn up in accordance with the procedure outlined in Article 10. By comparing the initial inventory of fixtures and the inventory of fixtures of output, , the expert shall set the amount of compensation for the property damage (whereby damage due to normal wear, if any, shall be excluded) and for the period of vacancy of the Leased Premises.

The decision of the expert(s) shall be binding on both parties.

If repairs or alterations are required to restore the property to its initial condition, and always without any prejudice whatsoever to the provisions of Article 12 below, they must be completed before the end of the lease term. Should the Lessee fail to do so, s/he shall pay the Lessor a compensation equivalent to two months' rent calculated based on the amount of rent in force at the end of the lease term per month, without prejudice to his/her other obligations, and any month started shall be due in full.

Article 12 – Alterations, Additions and Improvements

The Lessee shall not make any alterations, additions or improvements to the Leased Premises without first obtaining the express written consent of the Lessor who shall not unreasonably refuse such authorization.

The Lessee agrees to provide the Lessor with the construction plans for any alterations, additions and improvements to be made to the Leased Premises.

The alterations, additions and improvements must match the style of the building (materials, lighting, etc.). They shall be completed at the sole expense, risk and responsibility of the Lessee.

The Lessor reserves the right to supervise all authorised construction work and to request from the Lessee evidence of sufficient insurance coverage.

In addition, to carry out the authorised construction work, the Lessee must comply with all applicable standards, regulations and requirements such as construction permits and building safety regulations, including safety standards required by the insurance company and fire protection services.

The Lessee may be asked to prove compliance with these standards, regulations and requirements at any time. Should the Lessee be in breach thereof, the Lessor reserves the right to stop all construction works at the Lessee's expense, or to terminate the lease agreement for breach of contractual obligations.

By signing this contract, the Lessor permits the Lessee to install a camera surveillance system and an alarm system in the rented premises (and as already mentioned in Article 9 above).

At the end of the lease term, at any given moment and irrespective as to how the lease came to an end, all alterations, additions and improvements built, constructed or placed by the Lessee shall become the property of the Lessor, and shall be delivered in good working order (except normal wear and tear), free of charge and without any compensation. The Lessor reserves the right to demand the removal of these alterations, additions and improvements and to restore the Leased Premises to its original condition, either fully or partially, even if the construction was carried out with the Lessor's express consent.

Article 13 – Repairs and Maintenance

The Lessee shall maintain the Leased Premises in good, first class condition and shall make any necessary repairs or replacements. To reach this state of repair, the Lessee will perform the various maintenance tasks according to good practice. It will provide the Lessor with periodical maintenance reports in accordance with the schedule set out in Exhibit 3.

The Lessee shall be responsible for all repairs and replacements, even those other than leasehold repairs (including repairs arising out of a *force majeure* event or normal wear), with the exception of major repairs as defined in Articles 605 and 606 of the Belgian Civil Code, which are the responsibility of the Lessor, unless they can be attributed to the Lessee.

The Lessor shall, however, carry out the major repairs occasioned by stability problems of the building, or required to prevent stability problems of the building, as well as major repairs to the roof and the HVAC installation.

The Lessor may order the Lessee, by registered letter, to make any repairs or replacements that s/he deems necessary. In such cases (and unless the Lessee challenges the reasonableness of the required work), the Lessee agrees to proceed to effect (have effected) the tasks in a timely manner, and to complete them, to a degree reasonable for the Lessee, within two months following the sending of the written notice. Should the Lessee fail to make the repairs or replacements as requested, the Lessor is entitled to proceed with the works him/herself at the Lessee's expense and risk.

Throughout the entire term of this lease agreement, the Lessee shall not be entitled to any compensation or abatement of rent while construction, repairs or improvements are being carried out, even if they take longer than 40 days to complete.

Subject to the Lessee's being notified at least 24 hours in advance of the planned visit, except in emergencies, the Lessor, his/her authorized representatives and any building contractors(s) hired by the Lessor shall have the right to enter the Leased Premises for inspection purposes and/or to carry out any repairs deemed appropriate by the Lessor, even if these repairs relate to a neighboring tenant.

The Lessor may have all installations checked each year by an expert of his/her choice. The Lessee shall allow the expert to enter the Leased Premises and to access the installations. The Lessee shall also satisfy any request for information by the expert, such as invoices, maintenance contracts, log books, etc. The Lessee shall be given a copy of the expert's report, for informational purposes only, with no admission of liability on the Lessor's part. The Lessee agrees to strictly adhere to the recommendations contained in the expert's report.

The Lessee shall inform the Lessor promptly and by registered letter of any repairs which are the Lessor's responsibility. In the absence of such notification, the Lessee shall be held liable for any deterioration or consequential damage resulting therefrom.

Once the Lessor has been duly notified of his/her responsibility to complete certain repairs, s/he agrees to take all necessary measures to carry them out promptly, and to act with the customary due diligence.

The Lessor shall not be held liable for any loss or damage that the Lessee may sustain or incur by reason of an interruption in the use of building services for reasons beyond the Lessor's control, provided that the Lessor has taken all reasonable steps to keep these services in good working order or to restore them after a failure or interruption.

Article 14 – Energy and Environmental Impact

As part of a more responsible and rational energy usage, as promoted by regional, federal and supranational authorities, the Lessee agrees to:

(i) cooperate fully with all energy audits initiated by the Lessor, with a maximum of one audit per year, and
(ii) provide all information, including supporting documents, with respect to all policies and decisions affecting the environment, such as energy and water consumption, waste treatment services, the presence of hazardous substances on the premises, mobility, etc., within 15 days following the Lessor's express request.

The Lessee also agrees to include this provision in any assignment or subletting agreement.

Article 15 – Change in Legal and/or Regulatory Requirements

The Lessor warrants that the property is in full compliance with all legal and regulatory requirements applicable at the time the building permit was issued.

Any alterations or improvements required as a result of new provisions affecting the Lessee's business activities shall be at his/her own expense. The Lessee shall not be entitled to any refund from the Lessor at the end of the lease term.

Such alterations or improvements are subject to the provisions of Article 12 of this lease agreement.

Article 16 – Guarantee

A. Guarantee by the Lessee's parent company

The Guarantor, which declares that it is fully informed of the content of this agreement, hereby jointly and severally guarantees all obligations of the Lessee under this agreement (hereinafter the "**Lessee's obligations**"). The Guarantor's commitment is given in favour of the Lessor, which accepts it, and in favor of any successors-in-law of the Lessor.

The Guarantor hereby formally and irrevocably declares (without prejudice to what is mentioned below, sub article 16.B., *in fine*):

(i) that it waives the benefit of discussion (Article 2021 of the Civil Code) and, where applicable, the benefit of division (Article 2026 of the Civil Code);

(ii) renounces any recourse, of any nature whatsoever, with subrogation or in person, against the Lessor or any other guarantor of the Lessor as long as the entirety of the Lessee's obligations have not been fulfilled, This waiver includes a waiver by the Guarantor to invoke Articles 1251.3, 2028, 2029, 2032, 2033 and 2039 of the Civil Code prior to the execution of all the Lessee's obligations;

(iii) to waive invoking Article 2037 of the Civil Code;

(iv) in so far as applicable, to waive Article 2027 of the Civil Code, in the event that the Lessor requires from the Guarantor the execution of only a part of the Lessee's obligation, this division by the Lessor not excluding any recourse by the Lessor against the Guarantor in respect of obligations of the Lessee remaining to be performed;

(v) waives asserting its discharge in the event that, for any reason whatsoever, a payment made by the Lessee in favour of the Lessor proves invalid, specifically because of incapacity, bankruptcy or other reasons affecting the Lessee, and, more generally, waives invoking Article 2029 of the Civil Code.

The guarantee ends when all the Lessee's obligations have been performed or as from the moment a rental guarantee has been provided upon the Lessor's request, in accordance with article 16.B. below.

The fact that the Lessor fails to assert or asserts only after a delay a right arising out of the guarantee may in no case be deemed to constitute a waiver, express or implied, by the Lessor, of its right to assert at a later date that right or any other derivative right.

The costs of providing the guarantee, its implementation in the courts or before a public officer, and its execution shall be borne exclusively by the Guarantor.

B. On first demand rental guarantee

The Lessee will be required, upon the Lessor's express request, to provide an on first demand rental guarantee from a first-class financial institution headquartered in Belgium, the wording of which is consistent with the draft text annexed to this Lease Agreement (Exhibit 3)., in the two following events :

- (1) In the event of failure, for two consecutive months, to pay the rent on time as provided for in Article 4, 3rd paragraph ;

- (2) In case of transfer of ownership of the leased premises, and provided the new owner requests such a first demand rental guarantee. The Lessor shall notify the Lessee of such request, in which case the Lessee shall provide the rental guarantee at the latest at the date of the notarial purchase deed.

The mere fact of providing a first demand rental guarantee shall release the Guarantor, with immediate effect, of any further obligations under the present lease agreement.

The amount of the rental guarantee is equal to six months' rent at the time of constitution of the guarantee.

In any case, the text of the on first demand rental guarantee must stipulate that the guarantee is provided for a period expiring no earlier than four months after the expiry of the Lease Agreement.

If the Lessor does not approve the bank or the wording of the guarantee, the Lessee shall be required to provide the security deposit in cash. In that case, the guarantee obligations of the parent company of the Lessee remain in place.

Article 17 – Assignment and Lease

17.1
The Lessee is not entitled to assign this lease agreement in full or in part, without the prior written consent of the Lessor who may refuse only for reasonable motives.

This prior written authorization shall not be required in case of transfer to a company affiliated to the Lessee ("*affiliated company*" *('société liée')* within the meaning given in Article 11 of the Belgian Companies Code).

17.2.
Provided that the third party respects strictly the destination of the Leased Premises as described in Article 2 above, and provided it complies fully with the obligations set out in Article 6 above, the Lessee may sublease the Leased Premises in whole or in part to a third party without requiring the Lessor's prior authorization.

17.3
If the Lessor authorizes the assignment or in case of sublease of the lease agreement, the Lessee and the sub-lessee/assignee shall be held jointly and severally liable towards the Lessor for the compliance with all obligations under this lease.

The Lessee agrees to obtain a similar commitment towards the Lessor from the sub-lessee or assignee. Otherwise, the assignment or sublease agreement shall be null and void, even if the Lessor gave his/her prior written consent.

The term of the sublease agreement cannot be longer than the term of the original lease agreement.

Article 18 – Signs and Other Displays

18.1
The Lessee shall not, without the Lessor's prior written consent, display any signs or advertising placards other than those mentioned in Article 18.2 below on the exterior (roof, facade, etc.) of the Leased Premises. Prior to approval, the Lessee shall submit to the Lessor all plans and specifications for the installation of any signage to allow the Lessor to evaluate the dimensions, size, graphic design, etc.

18.2
By signing this Lease Agreement, the Lessor declares that it has been informed by the Lessee of its desire to fix to the façade an advertising sign (the details and dimensions are shown on the plan contained in Exhibit 1 to the present Lease Agreement). The Lessor expressly consents to this installation. Any permit, taxes and costs related to the location of the sign shall be the Lessee's sole responsibility.

18.3
If the Lessor has consented to the signs and/or other displays, the Lessee shall pay all costs and assume all risks for the permitted signage as well as all costs and expenses for the installation and removal, in compliance with all applicable regulations.

It is the Lessee's responsibility to obtain the required administrative authorisations, with no input or involvement from the Lessor.

Article 19 – Insurance and Waiver of Liability

The Lessor shall procure, pay for and keep in full force and effect a policy or policies of insurance covering the building.

In the event that the Lessee's activities or use of the Leased Premises increase the insurance rates upon the building, the Lessee agrees to pay to the Lessor upon demand the amount of any increase in premiums for insurance resulting to the Lessor.

Throughout the lease term, the Lessee shall procure, pay for and keep in full force and effect a policy or policies of insurance covering the Lessee's occupation of the Leased Premises, liability towards third parties and all goods, wares, merchandise or other property of the Lessee in case of fire, explosion, water, glass breakage or other perils. A copy of the policy(ies) and, at the Lessor's simple request, proof of payment of the premiums shall be delivered to the Lessor.

Any compensation payable for the Leased Premises or the building as the result of a claim on the above-mentioned policy(ies) taken out by the Lessor shall be paid directly to the Lessor by the insurance company.

The policy to be subscribed by the Lessee will include a clause stipulating that the insurance company will give the Lessor at least 15 days' advance notice of the cancellation or suspension of the policy for any reason whatsoever.

The parties agree to hold each other harmless and waive any liability that they may be entitled to claim against one another or against the owner, long-term leaseholder, lessee, tenant, assignor, assignee, occupant, building manager or caretaker as well as against their employees or authorised representatives for any loss or damage arising from an undesirable event such as fire (the same waiver of liability applies to all tenants and occupants included their insurers), with the exception of liability for gross negligence or wilful misconduct.

Article 20 – Exclusion of Liability for the Lessor and his/her beneficiaries

The Lessee shall be responsible for guarding and protecting the Leased Premises. The Lessee hereby expressly agrees that the Lessor and his/her beneficiaries shall not be held liable for any damage or injury occasioned by theft, riots, vandalism or disturbances of any kind occurring in front of or inside the Leased Premises.

In the event that administrative or legal proceedings are initiated against the Lessor as a result of the activity or presence of the Lessee in the building, the Lessee shall indemnify and hold the Lessor harmless from all liability and loss arising from such proceedings.

Article 21 – Insolvency

This lease agreement is subject to the condition subsequent of the Lessee's bankruptcy, liquidation, or collective debt settlement.

This provision shall only apply in favour of the Lessor.

Article 22 – Early termination upon Lessee's default

In the event of termination of this lease agreement upon the Lessee's breaches of his/her contractual obligations, the Lessee shall pay to the Lessor a compensation for early termination amounting to three months' rent plus charges and taxes, plus a re-letting fee representing three months' rent plus charges and taxes, in addition to the rent, charges and taxes due for the outstanding quarter until the premises have been redelivered to the Lessor, without prejudice to Article 12 above.

The Lessee cannot use this provision to avoid meeting his/her obligations under this lease agreement.

Article 23 – Expropriation

Should the property be expropriated for public use, the lease shall be terminated on the date the public authorities take possession of the Leased Premises.

The compensation granted by the expropriating authorities to the Lessee shall not under any circumstance reduce the amount of compensation payable to the Lessor.

The Lessee shall not be entitled to claim any compensation to the Lessor.

The Lessor shall inform the Lessee immediately of any expropriation proceedings and keep him/her informed of the progress thereof.

Article 24 – Access to the Leased Premises

During six months preceding the end of the lease term, or in case of sale of the building by the Lessor, the Lessee shall allow the Lessor to display the usual posters advertising the sale or lease of the premises in visible locations and shall authorise visits by people accompanied by the Lessor and/or his/her representative(s) at any time between 9:00 a.m. and 5:00 p.m., from Monday to Friday.

Article 25 – Registration and Fees

The Lessor shall be responsible for registering this lease agreement and the Lessee shall be responsible for paying all registration fees.

As the Lease Agreement is subject to VAT (pursuant to Article 18, §1, 9° of the Belgian VAT Code), fixed general duties shall apply (Administrative Decision of 18 December 1972 n° E.E./83.039 in Rep. RJ).

Article 26 – Notice Dates

All notices sent by registered letter in connection with this lease agreement shall be considered as duly given on the day they are deposited at the post office, with the date on the deposit slip serving as proof.

Article 27 – Choice of Address for Notification

The Lessee elects domicile in the Leased Premises for notification during and after the end of the lease term for all lease-related purposes unless s/he has notified to the Lessor a new address in Belgium after his/her departure.

All correspondence in connection with this lease agreement shall be sent to the Lessor c/o AG RE, Avenue des Arts 58, 1000 Brussels.

Article 28 – Governing Law and Jurisdiction

The Lease Agreement shall be governed and construed in accordance with the Laws of Belgium.

Any dispute(s) which may arise between the parties in connection with this lease agreement shall be settled in the Courts of Liège.

Article 29 - Severability

The invalidity or unenforceability of any provision of this lease agreement shall not affect the validity or enforceability of the other provisions of this agreement, which shall remain in full force and effect.

The parties shall replace the invalid or unenforceable provision with a provision which is as close as possible to the original economic and practical intent of the invalid or unenforceable provision.

[Article 30 – Special Terms]

Article 30.1 Work to be undertaken by the Lessor

The Lessor undertakes to perform, at its own expense, the following work (and undertakes to make every effort to finalize this work within three months from the Start Date, seeking at all times to avoid as far as possible disrupting the Lessee's activities and its enjoyment of the Leased Premises):

- maintenance of the entire roof, with repair, if necessary, of any water leaks from the roof of the Leased Premises;
- to replace the closing mechanisms of the bay doors with stronger door systems. The technical specifications of the systems chosen shall be sent to the Lessee for his prior approval.

After execution of the above mentioned works, the provisions of Article 13 shall also apply.

Article 30.2 Rent reduction

Exceptionally, and for commercial purposes, a 50% reduction will be applied on the rent from 16 June 2016 until 31 December 2016.

To the rent for the first quarter 2017 a reduction of EUR 75,000 will be applied.

Article 30.3 Agreement of SPI+

The Lessor declares and warrants that it has obtained the prior approval of SPI+ (as required pursuant to article 6.3. of the notarial purchase deed of the Leased Premises) with the scope and the contents of this lease agreement.

Article 30.4 Intermediate Inventory of fixtures

Without prejudice to articles 10 and 11 above, and with the only goal of allowing to track and monitor the evolution of the state of the Leased Premises, the Parties agree to draw up, every two years, an intermediate inventory of fixtures of the premises. The procedure of article 10 shall be applied in this respect. Under no circumstances can such intermediate inventories be deemed to replace the initial inventory of fixtures.

Drawn up in Brussels on …………June 2016 in four original copies, each party having received one original, with the fourth copy filed to comply with registration requirements.

the Lessee,	the Lessor,
/s/ David Weinberg	/s/ Amaury de Crombrugghe
Mr. David Weinberg Business Manager	sprl Amaury de Crombrugghe, A. de Crombrugghe Permanent representative

/s/Stijn Smekens

Stijn Smekens

The Guarantor,

/s/ David Weinberg

Mr. David Weinberg,
CFO, COO, Director

Exhibits:

1. Building plans (including specifications of the advertising sign)
2. Service Charges Breakdown
3. Maintenance report

Exhibit 2

Service Charges Breakdown

At the end of each calendar quarter, the building manager will prepare a detailed breakdown of the common service charges as referred to in Article 7.C. of this lease agreement and send to the Lessee his/her detailed contribution based on his/her proportional share of occupancy in the building. The tenant shall pay his/her contribution promptly upon receipt of this document from the Lessor.

All real estate taxes (and/or any other taxes, duties and contributions) to be paid by the Lessee in accordance with Article 7.A. shall be charged separately from the service charges referred to in this Exhibit 2. Real Estate Taxes are payable at the time specified in Article 7.A.

All invoices and other evidence of the expenses charged to the Lessor or the building manager shall be available for the Lessee's review at the building manager's head office. The Lessee may also request copies of such evidence.

Exhibit 3

GUARANTEE

This bank guarantee has been provided by Bank
To the benefit of
headquartered at , required as per
Article of the lease agreement between , the Lessee
the Lessor,

and

and regarding

The Bank confirms that it has received a copy of the above listed lease agreement.

This bank guarantee represents the Bank 's abstract, unilateral, irrevocable and unconditional commitment to pay the fixed amount of EUR if so requested by the Lessor and subject to the following provisions:

1. The Bank guarantees the full and complete performance of the Lessee's obligations under the above listed lease agreement.

2. The guarantee is however limited to the equivalent of six months' rent, currently amounting to EUR. This amount shall be indexed according to the same terms and conditions as for the rent so that it always represents the equivalent of the last six months' rent.

3. The guarantee shall be called upon by the Lessor by registered letter duly signed by the Lessor or his/her authorised representatives.

   The payment request shall specify the sum of money to be released, up to the maximum guaranteed amount.

4. The requested sum of money shall be released to the Lessor unconditionally, without the need for the Lessor to provide any justification whatsoever, within a period of 10 days starting from the day the registered letter was deposited at the post office, in accordance with the terms and on the account specified by the Lessor in the request for payment.

5. This guarantee shall remain in full force and effect for a period equal to the term of the lease agreement, plus an additional period of four months.

6. This guarantee cannot be withdrawn without the prior written consent of the Lessor, unless an identical guarantee has been issued by another reputable bank headquartered in Belgium.

Exhibit 10.19

OFFICE LEASE

1230 -1240 Rosecrans Avenue
Manhattan Beach, California 90266

Onni Manhattan Towers Limited Partnership,

a Nevada limited partnership

as Landlord,

and

Skechers U.S.A., Inc.,

as Tenant.

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<u>1230-1240 ROSECRANS AVE, MANHATTAN BEACH, CALIFORNIA</u>

<u>OFFICE LEASE</u>

This Office Lease (the "**Lease**"), dated as of the date set forth in <u>Section 1</u> of the Summary of Basic Lease Information (the "**Summary**"), below, is made by and between ONNI MANHATTAN TOWERS LIMITED PARTNERSHIP, a Nevada limited partnership ("**Landlord**"), and Skechers U.S.A., Inc., ("**Tenant**").

<u>SUMMARY OF BASIC LEASE INFORMATION</u>

TERMS OF LEASE	DESCRIPTION
1.Date:	November 17, 2015
2.Premises (<u>Article 1</u>).	
2.1Building:	The building commonly known as 1240 Rosecrans Ave, Manhattan Beach, California.
2.2Premises:	Approximately **36,399** rentable square feet of space in total consisting of 27,073 square feet located on the **Fourth** (**4th**) floor of the Building and commonly known as Suite **400** (the "**4th Floor Premises**", and **9,326** rentable square feet of space located on the **Third** (**3rd**) floor of the Building and commonly known as Suite 300 (the "**3rd Floor Premises**") as further set forth in **<u>Exhibit A</u>** to the Lease.
3.Lease Term (<u>Article 2</u>).	
3.1Length of Term:	**Five** (**5**) years and **Five** (**5**) months.
3.2Lease Commencement Date:	The earlier to occur of (i) the date upon which Tenant first commences to conduct business **from any portion of the Premises or (ii) July 1, 2016.**
3.3Lease Expiration Date:	If the Lease Commencement Date shall be the first day of a calendar month, then the day **that is five (5) months following the day** immediately preceding the **Fifth** (**5th**) anniversary of the Lease Commencement Date; or, if the Lease Commencement Date shall be other than the first day of a calendar month, then the **day that is Five (5) months following** last day of the month in which the **Fifth** (**5th**) anniversary of the Lease Commencement Date occurs.
4.Base Rent (<u>Article 3</u>):	

Lease Year	Annual Base Rent	Monthly Installment of Base Rent	Approximate Monthly Base Rent per Rentable Square Foot
1**	$1,346,763.00* **	$112,230.25* **	$3.08
2	$1,387,165.92*	$115,597.16*	$3.18
3	$1,428,780.84*	$119,065.07*	$3.27
4	$1,471,644.24*	$122,637.02*	$3.37
5	$1,515,793.68*	$126,316.14*	$3.47
6	$1,561,267.44*	$130,105.62*	$3.57

* subject to adjustment based upon final measurement as set forth in Section 1.2.

** subject to full abatement for first five (5) full calendar months.

5.Base Year
(Article 4): Calendar year 2016.

6.Tenant's Share
(Article 4): 11.75%.

7.Permitted Use
(Article 5): General office use consistent with a first-class office building.

8.Security Deposit
(Article 21): **N/A**

9.Parking Pass Ratio
(Article 28): Tenant shall be entitled to 4 parking passes for every 1,000 rentable square feet of the Premises, of which, Tenant may convert to reserved or tandem parking as further set forth in Article 28. Twenty-nine (29) of such spaces will, at Tenant's request, be reserved spaces.

The monthly parking charges for the Project are as follows (per stall per month) and shall remain the same for the initial term of the Lease:
Unreserved$80.00- per stall, per month
Reserved$105.00- per stall, per month
Tandem $50.00- per car, per month.

The above charges shall be subject to annual increases of three percent (3%) per calendar year with the first such increase effective January 1, 2017.

10.Address of Tenant (Section 29.18):	Skechers U.S.A., Inc. 225 S. Sepulveda Blvd. Manhattan Beach, CA, 90266 Attention: Lease Administration
11.Address of Landlord (Section 29.18):	See Section 29.18 of the Lease.
12.Guarantor:	N/A
13.Tenant Improvement Allowance (**Exhibit F**):	$50.00 per rentable square foot of the Premises, subject to final measurement as set forth in Section 1.2, and as further set forth in **Exhibit F** attached hereto.
14. Brokers:	Cushman & Wakefield of California, Inc. representing Landlord and Tenant in a dual capacity.

ARTICLE 1

PREMISES, BUILDING, PROJECT, AND COMMON AREAS

1.1 **Premises, Building, Project and Common Areas**.

1.1.1 **The Premises**. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises set forth in Section 2.2 of the Summary (the "**Premises**"). The outline of the Premises is set forth in **Exhibit A** attached hereto. The parties hereto agree that the lease of the Premises is upon and subject to the terms, covenants and conditions herein set forth, and Tenant covenants as a material part of the consideration for this Lease to keep and perform each and all of such terms, covenants and conditions by it to be kept and performed and that this Lease is made upon the condition of such performance. The parties hereto hereby acknowledge that the purpose of **Exhibit A** is to show the approximate location of the Premises in the "Building," as that term is defined in Section 1.1.2, below, only, and such Exhibit is not meant to constitute an agreement, representation or warranty as to the construction of the Premises, the precise area thereof or the specific location of the "Common Areas," as that term is defined in Section 1.1.3, below, or the elements thereof or of the accessways to the Premises or the "Project," as that term is defined in Section 1.1.2, below. Except as specifically set forth in this Lease and in the Tenant Work Letter attached hereto as **Exhibit B** (the "**Tenant Work Letter** "), Tenant shall accept the Premises in their existing, "as is" condition, and Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Premises. Tenant also acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty regarding the condition of the Premises, the Building or the Project or with respect to the suitability of any of the foregoing for the conduct of Tenant's business, except as specifically set forth in this Lease and the Tenant Work Letter.

1.1.2 **The Building and The Project**. The Premises are a part of the building set forth in Section 2.1 of the Summary (the "**Building**"). The Building is part of an office project currently known as "Manhattan Beach Towers." The term "**Project**," as used in this Lease, shall mean (i) the building commonly known as 1230 Rosecrans Avenue, Manhattan Beach, CA, (ii) the Building and the Common Areas, and (iii) the land (which is improved with landscaping, above ground and subterranean parking facilities and other improvements) upon which the building commonly known as 1230 Rosecrans Avenue, Manhattan Beach, CA (the "1230 building"), the Building and the Common Areas are located (the "**Property**").

1.1.3 **Common Areas**. Tenant shall have the non-exclusive right to use in common with other tenants in the Project, and subject to the rules and regulations referred to in Article 5 of this Lease, those portions of the Project which are provided, from time to time, for use in common by Landlord, Tenant and any other tenants of the Project (such areas, together with such other portions of the Project designated by Landlord, in its discretion, including certain areas designated for the exclusive use of certain tenants, or to be shared by Landlord and certain tenants, are collectively referred to herein as the "**Common Areas**"). During the Lease Term, Landlord shall keep or cause the Common Areas to be kept in a neat, clean and orderly condition, properly lighted and landscaped, and shall repair any damage to the facilities thereof. The Common Areas shall consist of the "**Project Common Areas**" and the "**Building Common Areas**." The term "**Project Common Areas**," as used in this Lease, shall mean the portion of the Project available for the common use of the tenants of the Project, their agents, employees, contractors, and invitees and the facilities serving the Project and the Project Common Areas as designated by Landlord. The term "**Building Common Areas**," as used in this Lease, shall mean the portions of the Common Areas located within the Building designated as such by Landlord. The manner in which the Common Areas are maintained and operated shall be at the sole discretion of Landlord and the use thereof shall be subject to such rules, regulations and restrictions as Landlord may make from time to time. Landlord reserves the right to close temporarily, make alterations or additions to, or change the location of elements of the Project and the Common Areas. Tenant's rights with respect to the use of the Common Areas are a material consideration for Tenant's entering into this Lease and, except as required by Applicable Laws (as defined in Section 2.1.5), no change which has a material adverse effect upon Tenant's access or parking of the Premises shall be made to the Common Areas without the prior written consent of Tenant, which consent shall not be unreasonably withheld or delayed.

1.2 Rentable Square Feet. The rentable square feet of the Premises is approximately as set forth in Section 2.2 of the Summary. For purposes hereof, the rentable square feet of the Premises and the Building shall be calculated by Landlord pursuant to the Standard Method for Measuring Floor Area in Office Buildings, ANSI Z65.1-2010 ("**BOMA**"), to include, among other calculations, a portion of the common areas and service areas of the Building. Within ninety (90) days following the Possession Date as defined in Section 2.1, Tenant and/or Landlord may cause the rentable square feet of the Premises to be measured by a licensed architect in accordance with the provisions of this Section 1.2. Either party after measuring the Premises shall promptly notify the other party of the results thereof, and if the other party desires to contest such results it must notify the measuring party within thirty (30) days thereafter or the designated measurement will be deemed binding. If a party disputes the first measurement, then it shall appoint a duly-licensed architect and if the two architects are unable to agree upon a measurement, they shall appoint a third duly-licensed architect, whose calculation shall be binding. Each party shall be responsible for the payment its own architect, and the third architect, if required, shall be paid equally by the parties. In the event that the binding calculation reflects a deviation from the square footage set forth herein (i.e. 36,399 rentable square feet) of greater than two percent (2%), the parties shall amend the Lease to reflect the recalculated rentable square feet and to proportionately adjust the Base Rent and any other charges or credits based on per-square-foot calculations, as well as Tenant's Share. If the variance is two percent (2%) or less, then no adjustment shall be made to any such amounts. If the actual rentable square footage of the Premises is increased by more than three percent (3%) without Tenant's prior written consent, all Rent and other charges based upon rentable square footage calculations and Tenant's Share shall be computed on the rentable square footage stated in the Lease (i.e. 36,399), plus two percent (2%). If Tenant and/or Landlord fail to notify the other party of the results of the measurement within ninety (90) days following the Possession Date, then, unless the parties have agreed otherwise, the Premises shall be deemed to contain 36,399 rentable square feet.

ARTICLE 2

LEASE TERM

2.1 **In General.** The terms and provisions of this Lease shall be effective as of the date of this Lease. The term of this Lease (the "**Lease Term**") shall be as set forth in Section 3.1 of the Summary, shall commence on the date set forth in Section 3.2 of the Summary (the "**Lease Commencement Date**"), and shall terminate on the date set forth in Section 3.3 of the Summary (the "**Lease Expiration Date**") unless this Lease is sooner terminated as hereinafter provided. Tenant shall take possession of the 3rd Floor Premises upon Landlord meeting requirements for Early Possession as per 2.1.3.(the "**3rd Floor Possession Date**"). Tenant shall take possession of the 4th Floor Premises following Landlord's approval of the plans and specifications for Tenant's Work. When the Lease Commencement Date is determined, Landlord and Tenant shall execute a Notice of Lease Term Dates in the form attached hereto as **Exhibit C**. For purposes of this Lease, the term "**Lease Year**" shall mean each consecutive twelve (12) month period during the Lease Term beginning on the Lease Commencement Date, provided, however, that if the Lease Commencement Date is a day other than the first day of a calendar month, then the first Lease Year shall include that period of time from the Lease Commencement Date up to the last day of the next following calendar month and the following eleven (11) calendar months, and any subsequent Lease Year shall be the twelve (12) calendar month period beginning on the first day of such month and the last Lease Year shall end on the Lease Expiration Date.

2.1.1 **Landlord's Work**. Landlord's Work shall consist of the following: (i) the planning and construction of code compliant restrooms serving the 3rd Floor Premises and the 4th Floor Premises; (ii) remodel of the 3rd Floor elevator lobby to then current building standards; (iii) Landlord's demising the 3rd Floor Premises per mutually approved plan to be completed no later than five (5) days following the date of execution hereof; (iv) completion of all 3rd floor Common Areas including elevator, vestibule and hallway; and (v) completing all other work necessary to ensure that the restrooms and Common Areas comply with all applicable laws and requirements, including without limitation the Americans With Disabilities Act ("ADA"). Landlord's Work with regard to restrooms and Common Areas will be completed in a manner substantially similar to what was done to the 5th floor of the 1230 building. Landlord shall obtain approval of the plans and specifications and working drawings from all appropriate governmental agencies and after they have been approved, a copy shall be initialed and dated by the parties. Landlord shall use diligent efforts to obtain such approval as soon as is reasonably practicable. Landlord shall then complete Landlord's Work in a good and workmanlike manner, utilizing new materials and duly licensed contractors, substantially in accordance with the approved final plans and specifications and working drawings and in compliance with all Applicable Laws (as defined in Section 2.1.5). In conjunction with Early Possession as described in Section 2.1.3, Landlord shall substantially complete Landlord's Work prior to the Commencement Date. As used in this Lease, the terms "**substantial completion**" and "**substantially complete**" shall mean that Landlord's Work has been completed with the exception of minor items which can be fully completed prior to the completion of Tenant's Work.

2.1.2 **Tenant's Work**. Within fifteen (15) days execution of this Lease, Tenant shall submit preliminary plans and specifications for the improvements and alterations to be completed in the 4th Floor Premises, as further described as "Tenant's Work" on the Tenant Work Letter attached hereto as **Exhibit B** to Landlord for Landlord's preliminary review and approval prior to submission of the same to the appropriate governmental agency for such agency's review and approval, Within three (3) business days after receipt of the preliminary plans and specifications, Landlord shall approve the preliminary plans and specifications or deliver to Tenant its specific objections thereto, together with its proposed solution to each objection. Landlord's approval of the plans and specifications shall not be unreasonably withheld or delayed. If Landlord fails to either approve or disapprove the preliminary plans and specifications within the 3 business day period, then Landlord shall be deemed to have approved same. Following approval of the preliminary plans and specifications, Tenant, at Tenant's sole cost and expense, shall prepare and deliver to Landlord final plans and specifications and working drawings (based on approved preliminary plans and specifications) covering Tenant's Work. Tenant shall obtain approval of the final plans and specifications and working drawings from all appropriate governmental agencies and after they have been approved, a copy shall be initialed and dated by the parties. Tenant shall use diligent efforts to obtain such approval as soon as is reasonably practicable. The plans and specifications as prepared by Tenant herein (as approved by Landlord herein) shall be controlling with respect to the performance by Tenant of Tenant's Work. Landlord shall not charge Tenant with any review or oversight fees in connection with its review and approval of Tenant's plans and specifications. Tenant shall then complete Tenant's Work in a good and workmanlike manner, utilizing new materials and duly licensed contractors, substantially in accordance with the approved final plans and specifications and working drawings and in compliance with all Applicable Laws.

2.1.3 **Early Possession.** Upon completion of the work required of Landlord to complete access to the 3rd Floor Premises and the 4th Floor Premises (e.g. demising of 3rd floor Common Area corridors), Landlord will allow Tenant to have non-exclusive access to and possession of the 3rd Floor Premises and 4th Floor Premises for purposes of completing Tenant's Work ("**Early Possession Period**"). Landlord and Tenant shall work together cooperatively for the efficient completion of Landlord's Work and Tenant's Work in order to expedite Tenant's ability to commence commercial operation. Tenant's obligation to pay Base Rent and Operating Expenses shall be abated during any Early Possession Period, but all other terms of the Lease, however, (including but not limited to Tenant's obligations to carry the insurance as required by Section 10) shall be in effect during any such Early Possession Period.

2.1.4 **Condition**. Upon completion of Landlord's Work, Landlord shall deliver the applicable portion of the Premises with the electrical, plumbing, mechanical life safety systems, security systems, fire sprinkler, heating, ventilating and air conditioning systems (**"HVAC"**), and all other such elements of the Building, and the Premises, other than those to be constructed or installed by Tenant, in good operating condition on said date, and the surface and structural elements of the roof, bearing walls and foundation of the Building shall be free of material defects, and the roof will be free of leaks. Landlord shall deliver the 3rd Floor Premises in the condition specified in Section 2.1.3. Landlord's Work will be completed in compliance with all Applicable Laws (as defined below). If there is non-compliance with any of the foregoing as of the applicable Possession Date, Landlord shall promptly after receipt of written notice from Tenant setting forth with specificity the nature and extent of such non-compliance, rectify the same at Landlord's expense. Additionally, Tenant shall have a period of thirty (30) days after the applicable Possession Date to provide Landlord with a list (**"Punch List"**) of any defective, incomplete or unsatisfactory items with respect to Landlord's Work and the condition of the Premises as described herein.

Landlord shall be obligated within a reasonable amount of time, not to exceed thirty (30) days from delivery of the Punch List, to cure all undisputed items set forth on the Punch list.

2.1.5 **Compliance**. Landlord warrants that the improvements on or in the Premises and Building, including the Common Areas and Landlord's Work (other than those constructed by Tenant or at Tenant's direction) will, upon the applicable Possession Date, comply with the building codes that were in effect at the time that each such improvement, or portion thereof, was constructed and also with all applicable laws (including the Americans with Disabilities Act of 1990, as amended [the **"ADA"**]), regulations, codes, ordinances, covenants, conditions, restrictions, easements, and similar agreements (**"Applicable Laws"**) in effect on the applicable Possession Date.

2.2 **Option Term**.

2.2.1 **Option Right**. Landlord hereby grants Tenant **two** (**2**) option to extend the Lease Term for all, but not less than all, of the Premises then leased by Tenant (the "**Renewal Premises**") for a period of **three** (**3**) years (the "**Option Term**"), which option shall be exercisable only by written notice delivered by Tenant to Landlord as provided below, provided that, as of the date of delivery of such notice, Tenant is not in default under this Lease (after written notice and expiration of any applicable cure period). Upon the proper exercise of such option to extend, and provided that, Tenant is not in default under this Lease (after written notice and expiration of any applicable cure period), the Lease Term shall be extended for a period of **three** (**3**) years. The rights contained in this Section 2.2 shall be personal to the Original Tenant (any reference to Original Tenant shall include any Permitted Transferee as defined in Section 14.8) and may only be exercised by the Original Tenant (and not any assignee, sublessee or other transferee of the Original Tenant's interest in this Lease) if the Original Tenant occupies the entire Renewal Premises and is then operating within the Renewal Premises for the Permitted Use. If Tenant does not timely exercise its option to extend, as set forth in this Section 2.2, then the option to extend, as set forth in this Section 2.2, shall terminate, and Tenant shall have no further options to extend the Lease Term.

2.2.2 **Base Rent during Option Term**. The Base Rent payable by Tenant, on an annual per rentable square foot basis during each Option Term, if applicable (the "**Option Rent**"), shall be equal to **95% of** the Office Fair Market Rent Rate (as defined hereinbelow). "**95% of the Office Fair Market Rent Rate**" for purposes of determining the Option Rent for the Renewal Premises during the Option Term shall be equal to ninety five percent (95%) of the base rent, calculated on an annual per rentable square foot basis, including all escalations, at which tenants, as of the commencement of the Option Term, are leasing non-sublease, non-encumbered, non-equity, non-renewal, non-expansion, fully permitted office space comparable in size, location and quality to the Renewal Premises, for a lease term of **three** (**3**) years or longer, for general office use, in an arm's length transaction, which comparable space is located in the Project and in the Comparable Buildings (as defined hereinbelow) (collectively, the "**Comparable Office Transactions**"), and which Comparable Office Transactions have been entered into within the nine (9) month period prior to Landlord's delivery of the Rent Notice (as defined below). The Office Fair Market Rent for purposes of this Lease, the term "**Comparable Buildings**" shall mean other buildings containing offices, which buildings are located in the proximity of the Project and possess similar attributes.

2.2.3 **Exercise of Options**. The options contained in this Section 2.2 shall be exercised by Tenant, if at all, only in the following manner: (i) Tenant shall deliver written notice to Landlord not less than nine (9) months prior to the expiration of the initial Lease Term or the immediately preceding term, as applicable; (ii) Landlord, within thirty (30) days after receipt of Tenant's notice, shall deliver notice (the "**Option Rent Notice**") to Tenant setting forth the Option Rent; and (iii) thereafter, Tenant shall be entitled to engage in good faith negotiations regarding the Option Rent for a period of up to thirty (30) days following receipt of the Option Rent Notice (the "**Negotiation Period**"). Tenant shall reply to the Option Rent Notice with an Option Exercise Notice, and in such Option Exercise Notice, Tenant shall specify whether Tenant accepts the Option Rent set forth in Landlord's Option Rent Notice, whether Tenant elects to determine Option Rent pursuant to the arbitration procedure set forth in Section 2.2.4 below, or whether the Option Rent shall be as agreed upon by Landlord and Tenant during the Negotiation Period, if any.

2.2.4 **Determination of Option Rent**. In the event Tenant elects to determine Option Rent through arbitration, then each party shall make a separate determination of the Option Rent and, within five (5) business days after Landlord's receipt of the Option Exercise Notice (the fifth (5th) business day referred to as the "**Outside Submittal Date**"), concurrently exchange such determinations and such determinations shall be submitted to arbitration in accordance with Sections 2.2.4.1 through 2.2.4.7 below.

2.2.4.1 Landlord and Tenant shall each appoint one arbitrator who shall be, a real estate broker who shall have been active over the five (5) year period ending on the date of such appointment in the leasing of commercial mixed-use office, retail properties in the South Bay area of California. Each such arbitrator shall be appointed within fifteen (15) days after the Outside Submittal Date. Landlord and Tenant may consult with their selected arbitrators prior to appointment and may select an arbitrator who is favorable to their respective positions. The arbitrators so selected by Landlord and Tenant shall be deemed "**Advocate Arbitrators**."

2.2.4.2 The two (2) Advocate Arbitrators so appointed shall be specifically required pursuant to an engagement letter within ten (10) days of the date of the appointment of the last appointed Advocate Arbitrator to agree upon and appoint a third arbitrator ("**Neutral Arbitrator**") who shall be qualified under the same criteria set forth hereinabove for qualification of the two Advocate Arbitrators, except that neither the Landlord or Tenant or either parties' Advocate Arbitrator may, directly or indirectly, consult with the Neutral Arbitrator prior or subsequent to his or her appearance. The Neutral Arbitrator shall be retained via an engagement letter jointly prepared by Landlord's counsel and Tenant's counsel.

2.2.4.3 The determination of the Neutral Arbitrator shall be limited solely to the issue of whether Landlord's or Tenant's submitted Option Rent is the closest to the actual Option Rent, taking into account the requirements of Section 2.2.2 of this Lease, as determined by the Neutral Arbitrator. The Neutral Arbitrator shall, within thirty (30) days of the appointment of the Neutral Arbitrator, select either Landlord's or Tenant's submitted Option Rent for the applicable Option Term, and shall notify Landlord and Tenant thereof within such timeframe.

2.2.4.4 The decision of the Neutral Arbitrator shall be binding upon Landlord and Tenant.

2.2.4.5 If either Landlord or Tenant fails to appoint an Advocate Arbitrator within fifteen (15) business days after the applicable Outside Submittal Date, the Advocate Arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant.

2.2.4.6 If the two Advocate Arbitrators fail to agree upon and appoint a Neutral Arbitrator, or both parties fail to appoint Advocate Arbitrators, then the appointment of the Neutral Arbitrator or any Advocate Arbitrator shall be dismissed and the Option Rent to be decided shall be forthwith submitted to arbitration pursuant to the expedited arbitration provisions as set forth in **Exhibit H**, but subject to the instruction set forth in this Section 2.2.4.

2.2.4.7 Each party shall be responsible for the payment of its own Advocate Arbitrator, and the Neutral Arbitrator shall be paid equally by the parties.

2.2.4.8 In the event that the Option Rent shall not have been determined pursuant to the terms hereof prior to the commencement of the Option Term, Tenant shall be required to pay the Option Rent initially provided by Landlord to Tenant, and upon the final determination of the Option Rent, the payments made by Tenant shall be reconciled with the actual amounts of Option Rent due, and the appropriate party shall make any corresponding payment to the other party.

ARTICLE 3

BASE RENT

3.1 **In General**. From and after the Lease Commencement Date, Tenant shall pay Base Rent as set forth in Section 4 of the Summary, without prior notice or demand, to Landlord or Landlord's agent at the management office of the Project, or, at Landlord's option, at such other place as Landlord may from time to time designate in writing, in good funds by pre-authorized debit or wire transfer (and not by check), which at the time or times of payment represents legal tender for public and private debts in the United States of America. Base Rent shall be payable in equal monthly installments as set forth in Section 4 of the Summary in advance on or before the first (1st) day of each and every calendar month during the Lease Term, without any setoff or deduction whatsoever (except as otherwise expressly provided herein). If the Lease Commencement Date falls on a day of the month other than the first day of such month, the Base Rent for the partial month from the Lease Commencement Date to the last day of the calendar month in which the Lease Commencement Date occurs will be prorated and paid on the first (1st) day of the following calendar month. Rent (as defined below in Section 4.2) for any fractional month shall accrue on a daily basis for the period from the date such payment is due to the end of such calendar month or to the end of the Lease Term at a rate per day which is equal to 1/365 of the applicable annual Rent. All other payments or adjustments required to be made under the terms of this Lease that require proration on a time basis shall be prorated on the same basis.

3.2 **Abated Base Rent**. Notwithstanding anything in Section 3.1 above, to the contrary, Tenant shall not be obligated to pay the monthly Base Rent attributable to the Premises for **months 1 through 5** of the initial Lease Term (i.e. the first five (5) full calendar months following the Lease Commencement Date) (the **"Rent Abatement Period"**), provided, however, if the Lease Commencement Date is other than the first day of a calendar month, then Tenant shall pay a prorated portion of the Base Rent for the partial month from the Lease Commencement Date to the last day of the calendar month in which the Lease Commencement Date occurs as described in Section 3.1.

ARTICLE 4

ADDITIONAL RENT

4.1 **General Terms**. In addition to paying the Base Rent specified in Article 3 of this Lease, from and after the start of calendar year 2017, Tenant shall pay "**Tenant's Share**" of the annual "**Direct Expenses**," as those terms are defined in Sections 4.2.6 and 4.2.2 of this Lease, respectively, which are in excess of the amount of Direct Expenses applicable to the "**Base Year**," as that term is defined in Section 4.2.1, below; provided, however, that in no event shall any decrease in Direct Expenses for any "**Expense Year**," as that term is defined in Section 4.2.3 below, below Direct Expenses for the Base Year entitle Tenant to any decrease in Base Rent or any credit against sums due under this Lease. Such payments by Tenant, together with any and all other amounts payable by Tenant to Landlord pursuant to the terms of this Lease other than Base Rent, are hereinafter collectively referred to as the "**Additional Rent**", and the Base Rent and the Additional Rent are herein collectively referred to as "**Rent**." All amounts due under this Article 4 as Additional Rent shall be payable for the same periods and in the same manner as the Base Rent. Without limitation on other obligations of Tenant which survive the expiration of the Lease Term, the obligations of Tenant to pay the Additional Rent provided for in this Article 4 shall survive the expiration of the Lease Term.

4.2 **Definitions of Key Terms Relating to Additional Rent**. As used in this Article 4, the following terms shall have the meanings hereinafter set forth:

4.2.1 "**Base Year**" shall mean the period set forth in Section 5 of the Summary.

4.2.2 "**Direct Expenses**" shall mean "**Operating Expenses**" and "**Tax Expenses**."

4.2.3 "**Expense Year**" shall mean each calendar year in which any portion of the Lease Term falls, through and including the calendar year in which the Lease Term expires, provided that Landlord, upon notice to Tenant, may change the Expense Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Share of Direct Expenses shall be equitably adjusted for any full Expense Year involved in any such change.

4.2.4 "**Operating Expenses**" shall mean all expenses, costs and amounts of every kind and nature which Landlord pays or accrues during any Expense Year because of or in connection with the ownership, management, maintenance, security, repair, or operation of the Project, or any portion thereof. Without limiting the generality of the foregoing, Operating Expenses shall specifically include any and all of the following, provided, that any expenses, costs and/or amounts were charged for such items during the Base Year: (i) the cost of supplying all utilities, the cost of operating, repairing, and maintaining the utility, telephone, mechanical, sanitary, storm drainage, and elevator systems, and the cost of maintenance and service contracts in connection therewith; (ii) the cost of licenses, certificates, permits and inspections, and the costs incurred in connection with a governmentally mandated transportation system management program or similar program; (iii) the cost of all insurance carried by Landlord in connection with the Project as reasonably determined by Landlord; (iv) the cost of landscaping, relamping, and all supplies, tools, equipment and materials used in the operation, repair and maintenance of the Project, or any portion thereof; (v) the cost of parking area operation, repair, and maintenance; (vi) fees and other costs, including management and/or incentive fees (provided such management and/or incentive fees do not to exceed 10% of the Operating Expenses), legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Project; (vii) payments under any equipment rental agreements and the fair rental value of any management office space, provided the fair rent value of such management office was charged during the Base Year; (viii) subject to item (f), below, wages, salaries and other compensation and benefits, including taxes levied thereon, of all persons engaged in the operation, maintenance and security of the Project; (ix) costs under any instrument pertaining to the sharing of costs by the Project; (x) operation, repair, and maintenance of all systems and equipment and components thereof of the Project; (xi) the cost of janitorial, alarm, security and other services, replacement repair and maintenance of wall and floor coverings, ceiling tiles and fixtures in common areas, curbs and walkways, repair to roofs; (xii) amortization (including interest on the unamortized cost) over such period of time as Landlord shall reasonably determine, of the cost of acquiring or the rental expense of personal property used in the maintenance, operation and repair of the Project, or any portion thereof; (xiii) the cost of capital improvements or other costs incurred in connection with the Project (A) which are intended to effect economies in the operation or maintenance of the Project, or any portion thereof, or to reduce current or future Operating Expenses or to enhance or improve the safety or security of the Project or its occupants, (B) that are required to comply with present or anticipated conservation programs, (C) which are replacements or modifications of nonstructural items located in the Common Areas required to keep the Common Areas in good order or condition, or that are required under any governmental law or regulation; provided, however, that any capital expenditure shall be amortized (including interest on the amortized cost at four percent [4%] per annum) over such period of time as Landlord shall reasonably determine; and (provided the annual amortized cost does not exceed the actual cost savings realized and such savings do not redound primarily to the benefit of any particular tenant); (xiv) costs, fees, charges or assessments imposed by, or resulting from any mandate imposed on Landlord by, any federal, state or local government for fire and police protection, trash removal, community services, or other services which do not constitute "Tax Expenses" as that term is defined in Section 4.2.5, below; and (xv) payments under any easement, license, declaration, or restrictive covenant pertaining to the sharing of costs by the Building, including, without limitation, any covenants, conditions and restrictions affecting the Property, and reciprocal easement agreements affecting the Property, any parking licenses, and any agreements with transit agencies affecting the Property (collectively, "**Underlying Documents**"). Notwithstanding the foregoing, for purposes of this Lease, Operating Expenses shall not, however, include:

(a) costs related to activities or occurrences involving specific tenants of the Project as opposed to all of the tenants of the Project in general including without limitation legal fees (including settlements, judgments or awards), space planners' fees, advertising and promotional expenses, brokerage fees or finders' fees, and costs, including permit, license and inspection costs, incurred with respect to the installation of tenant improvements made for new tenants initially occupying space in the Project after the

Lease Commencement Date or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Project (excluding, however, such costs relating to any common areas of the Project or parking facilities);

(b) depreciation, interest and principal payments on mortgages and other debt costs, if any, penalties and interest, and except as set forth in items (xii), (xiii), and (xiv) above, costs of capital repairs and alterations, and costs of capital improvements and equipment;

(c) costs for which the Landlord is reimbursed by any tenant or occupant of the Project or by insurance by its carrier or any tenant's carrier or by anyone else, and electric power costs for which any tenant directly contracts with the local public service company;

(d) any bad debt loss, rent loss, or reserves for bad debts or rent loss;

(e) costs associated with the operation of the business of the partnership or entity which constitutes the Landlord, as the same are distinguished from the costs of operation of the Project (which shall specifically include, but not be limited to, accounting costs associated with the operation of the Project). Costs associated with the operation of the business of the partnership or entity which constitutes the Landlord include costs of partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee (except as the actions of the Tenant may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of the Landlord's interest in the Project, and costs incurred in connection with any disputes between Landlord and its employees, between Landlord and Project management, or between Landlord and other tenants or occupants;

(f) the wages and benefits of any employee at or above the grade of property manager, and wages, salaries and benefits of any employee who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project vis-a-vis time spent on matters unrelated to operating and managing the Project;

(g) amount paid as ground rental for the Project by the Landlord;

(h) except as provided in the Lease, Project management fee, overhead and profit increment paid to the Landlord or to subsidiaries or affiliates of the Landlord for services in the Project to the extent the same exceeds the costs of such services rendered by qualified, professional unaffiliated third parties on a competitive basis;

(i) any compensation paid to clerks, attendants or other persons in commercial concessions operated for profit by or through the Landlord;

(j) rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment which if purchased the cost of which would be excluded from Operating Expenses as a capital cost, except equipment not affixed to the Project which is used in providing janitorial or similar services and, further excepting from this exclusion such equipment rented or leased to remedy or ameliorate an emergency condition in the Project;

(k) all items, utilities, and services for which Tenant or any other tenant in the Project reimburses Landlord or that are reimbursable to Landlord, or which Landlord provides selectively to one or more tenants (other than Tenant) without reimbursement (e.g. overtime HVAC costs);

(l) any costs expressly excluded from Operating Expenses elsewhere in this Lease;

(m) rent for any office space occupied by Project management personnel to the extent the size or rental rate of such office space exceeds the size or fair market rental value of office space occupied by management personnel of the comparable buildings in the vicinity of the Building, with adjustment where appropriate for the size of the applicable project;

(n) costs arising from the gross negligence or willful misconduct of Landlord or its agents, employees, vendors, contractors, or providers of materials or services;

(o) costs incurred to comply with laws relating to the removal, remediation or disposal of hazardous material (as defined under applicable law), not caused by Tenant or its agents, in the Building or on the Project not caused by Tenant or its agents;

(p) costs of repairs incurred by reasons of fire or other casualty or condemnation;

(q) income or franchise taxes or such other taxes imposed upon or measured by Landlord's income from the operation of the Project; inheritance or estate taxes of Landlord;

(r) any amounts paid to affiliates of Landlord for services to the Project which are in excess of commercially reasonable rates for such services;

(s) reserves for future costs;

(t) costs incurred by Landlord for the repair and maintenance of the Project that are covered by guaranties or service contracts;

(u) interest, late charges, and penalties on any costs not resulting from the actions of Tenant;

(v) any and all costs incurred in procuring, retaining. negotiating, amending, extending, administering, or terminating leases with any other existing or prospective tenants, including, without limitation, brokerage commissions and architectural, engineering and legal fees;

(w) costs attributable to enforcing leases against other tenants in the Project, such as attorney's fees, court costs, adverse judgments, and similar costs;

(x) costs of repairing or replacing any structural components of improvements of the Project;

(y) any cost of initially constructing the Project and installing the Common Areas (including without limitation all paving areas, driveways, aisles, sidewalks, or in correcting any design or construction defects therein); and

(z) except as set forth in Section 4.2.4(xiii), the cost of capital improvements or other capital costs incurred in connection with the renovation or replacement of capital improvements.

It is agreed that Operating Expenses shall be reduced by all cash discounts, trade discounts or quantity discounts received by Landlord or Landlord's managing agent, in the purchase of goods, utilities or services in connection with the operation of the Project. In the calculation of expenses hereunder, it is agreed that no expense shall be charged more than once. Landlord shall use diligent efforts to effect an equitable proration of bills for services rendered to the Project.

If the Project is not ninety-five percent (95%) occupied during all or a portion of the Base Year or any Expense Year, Landlord shall make an appropriate adjustment to the components of Operating Expenses for such year to determine the amount of Operating Expenses that would have been incurred had the Project been ninety-five percent (95%) occupied; and the amount so determined shall be deemed to have been the amount of Operating Expenses for such year. Operating Expenses (including for the Base Year) shall not include market-wide cost increases due to extraordinary circumstances, including, but not limited to, Force Majeure, boycotts, strikes, conservation surcharges, embargoes or shortages, or amortized costs relating to capital improvements except as set forth in Section 4.2.4(xiii).

4.2.5 **Taxes**.

4.2.5.1 "**Tax Expenses**" shall mean all federal, state, county, or local governmental or municipal taxes, fees, charges or other impositions of every kind and nature, whether general, special, ordinary or extraordinary, (including, without limitation, real estate taxes, general and special assessments, transit taxes, leasehold taxes or taxes based upon the receipt of rent, including gross receipts or sales taxes applicable to the receipt of rent, unless required to be paid by Tenant, personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems and equipment, appurtenances, furniture and other personal property used in connection with the Project, or any portion thereof), which shall be paid or accrued during any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing and operation of the Project, or any portion thereof. For purposes of this Lease, Tax Expenses shall be calculated as if the tenant improvements in the Building were fully constructed and the Building and all tenant improvements in the Building were fully assessed for real estate tax purposes. If any general or special assessment is levied against the Building or Property, such assessment will be charged over the longest time-period allowed by law for Landlord's payment thereof.

4.2.5.2 Tax Expenses shall include, without limitation: (i) Any tax on the rent or other income from the Project, or any portion thereof, or as against the business of leasing the Project, or any portion thereof; (ii) Any assessment, tax, fee, levy or charge in addition to, or in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax, it being acknowledged by Tenant and Landlord that Proposition 13 was adopted by the voters of the State of California in the June 1978 election ("**Proposition 13**") and that assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such services as fire protection, street, sidewalk and road maintenance, refuse removal and for other governmental services formerly provided without charge to property owners or occupants, and, in further recognition of the decrease in the level and quality of governmental services and amenities as a result of Proposition 13, Tax Expenses shall also include any governmental or private assessments or the Project's contribution towards a governmental or private cost-sharing agreement for the purpose of augmenting or improving the quality of services and amenities normally provided by governmental agencies; (iii) Any assessment, tax, fee, levy, or charge allocable to or measured by the area of the Premises or the Rent payable hereunder, including, without limitation, any business or gross income tax or excise tax with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operating, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises, or any portion thereof; and (iv) Any assessment, tax, fee, levy or charge, upon this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises.

4.2.5.3 Any costs and expenses (including, without limitation, reasonable attorneys' and consultants' fees) incurred in attempting to protest, reduce or minimize Tax Expenses shall be included in Tax Expenses in the Expense Year such expenses are incurred. Tax refunds shall be credited against Tax Expenses and refunded to Tenant regardless of when received, based on the Expense Year to which the refund is applicable, provided that in no event shall the amount to be refunded to Tenant for any such Expense Year exceed the total amount paid by Tenant as Additional Rent under this Article 4 for such Expense Year. If Tax Expenses for any period during the Lease Term or any extension thereof are increased after payment thereof for any reason, including, without limitation, error or reassessment by applicable governmental or municipal authorities, Tenant shall pay Landlord upon demand Tenant's Share of any such increased Tax Expenses. Notwithstanding anything to the contrary contained in this Section 4.2.5, there shall be excluded from Tax Expenses (i) all profits taxes, capital levy, franchise taxes, taxes on gross receipts, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes to the extent applicable to Landlord's general or net income (as opposed to rents, receipts or income attributable to operations at the Project), (ii) any items included as Operating Expenses, and (iii) any items paid by Tenant under Section 4.5 of this Lease.

4.2.5.4 The amount of Tax Expenses for the Base Year attributable to the valuation of the Project, inclusive of tenant improvements, shall be known as the "**Base Taxes**". If in any comparison year subsequent to the Base Year, the amount of Tax Expenses decreases below the amount of Base Taxes, then for purposes of all subsequent comparison years, including the comparison year in which such decrease in Tax Expenses occurred, the Base Taxes, and therefore the Base Year, shall be decreased by an amount equal to the decrease in Tax Expenses.

4.2.6 "**Tenant's Share**" shall mean the percentage set forth in Section 6 of the Summary. Tenant's Share was calculated by dividing the number of rentable square feet of the Premises by the total rentable square feet in the Project (and is subject to change based on re-measurement of the Premises as set forth in Section 1.2). Landlord shall have the right from time to time to redetermine the rentable square feet of the Project (excluding the Premises), and Tenant's Share shall be appropriately adjusted to reflect any such determination. If Tenant's Share is adjusted pursuant to the foregoing, then, as to the Expense Year in which such adjustment occurs, Tenant's Share for such year shall be determined on the basis of the number of days during such Expense Year that each such Tenant's Share was in effect.

4.3 **Cost Pools**. Landlord shall have the right, from time to time, to equitably allocate some or all of the Direct Expenses for the Project among different portions or occupants of the Project (the "**Cost Pools**"), in Landlord's reasonable discretion. Such Cost Pools may include, but shall not be limited to, the office space tenants of a building of the Project or of the Project, and the retail space tenants of a building of the Project or of the Project. The Direct Expenses within each such Cost Pool shall be allocated and charged to the tenants within such Cost Pool in an equitable manner.

4.4 **Calculation and Payment of Additional Rent**. If for any Expense Year ending or commencing within the Lease Term, Tenant's Share of Direct Expenses for such Expense Year exceeds Tenant's Share of Direct Expenses applicable to the Base Year, then Tenant shall pay to Landlord, in the manner set forth in Section 4.4.1, below, and as Additional Rent, an amount equal to the excess (the "**Excess**").

4.4.1 **Statement of Actual Direct Expenses and Payment by Tenant**. Landlord shall furnish to Tenant within ninety (90) days following the end of each Expense Year, a statement (the "**Statement**") which shall state the Direct Expenses incurred or accrued for such preceding Expense Year, and which shall indicate the amount of the Excess. Upon receipt of the Statement for each Expense Year commencing or ending during the Lease Term, if an Excess is present, Tenant shall pay, with its next installment of Base Rent due, the full amount of the Excess for such Expense Year, less the amounts, if any, paid during such Expense Year as "**Estimated Excess**," as that term is defined in Section 4.4.2, below, and if Tenant paid more as Estimated Excess than the actual Excess, Tenant shall receive a credit in the amount of Tenant's overpayment against Rent next due under this Lease. The failure of Landlord to timely furnish the Statement for any Expense Year shall not prejudice Landlord or Tenant from enforcing its rights under this Article 4., provided that Landlord has cured such failure within thirty (30) days of prior written notice from Tenant. Even though the Lease Term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Share of Direct Expenses for the Expense Year in which this Lease terminates, if an Excess if present, Tenant shall within thirty (30) days' pay to Landlord such amount, and if Tenant paid more as Estimated Excess than the actual Excess, Landlord shall, within sixty (60) days, deliver a check payable to Tenant in the amount of the overpayment. The provisions of this Section 4.4.1 shall survive the expiration or earlier termination of the Lease Term.

4.4.2 **Tenant's Right to Audit of Direct Expenses**. So long as no Event of Default (as defined in Article 19) exists, which remains uncured, Tenant shall have the right, at Tenant's own expense, for a period of two (2) years following receipt of each Statement (or when such Statement was supposed to be furnished to Tenant), and upon not less than thirty (30) days' prior written notice to Landlord, to review Landlord's books and records, including underlying documents, invoices and billing statements at Landlord's office during usual business hours relating to the Direct Expenses for the prior Expense Year. With regard to such review, Landlord agrees to cooperate reasonably with Tenant in providing additional documentation or answering any questions which Tenant might have, and Landlord and Tenant agree to work together in good faith to attempt to resolve any disputes with regard to Tenant's Share of Direct Expenses. If Landlord and Tenant are unable to reach a mutual agreement the dispute shall be resolved pursuant to the expedited arbitration provisions of **Exhibit H**. Tenant shall not be entitled to require an audit more than one (1) time per Expense Year, and in the event no audit is conducted within two (2) years following the expiration of an Expense Year, Tenant shall have no further right to audit any records with respect to such Expense Year.

4.4.3 **Statement of Estimated Direct Expenses**. In addition, Landlord shall endeavor to give Tenant a yearly expense estimate statement (the "**Estimate Statement**") which shall set forth Landlord's reasonable estimate (the "**Estimate**") of what the total amount of Direct Expenses for the then-current Expense Year shall be and the estimated excess (the "**Estimated Excess**") as calculated by comparing the Direct Expenses for such Expense Year, which shall be based upon the Estimate, to the amount of Direct Expenses for the Base Year. The failure of Landlord to timely furnish the Estimate Statement for any Expense Year shall not preclude Landlord from reasonably estimating the Estimated Excess and enforcing its rights to collect any Estimated Excess under this Article 4, nor shall Landlord be prohibited from revising any Estimate Statement or Estimated Excess theretofore delivered to the extent necessary. Thereafter, Tenant shall pay, with its next installment of Base Rent due, a fraction of the Estimated Excess for the then-current Expense Year (reduced by any amounts paid pursuant to the last sentence of this Section 4.4.2). Such fraction shall have as its numerator the number of months which have elapsed in such current Expense Year, including the month of such payment, and twelve (12) as its denominator. Until a new Estimate Statement is furnished (which Landlord shall have the right to deliver to Tenant at any time), Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the total Estimated Excess set forth in the previous Estimate Statement delivered by Landlord to Tenant.

4.5 **Taxes and Other Charges for Which Tenant Is Directly Responsible**.

4.5.1 Tenant shall be liable for and shall pay ten (10) days before delinquency, taxes levied against Tenant's equipment, furniture, fixtures and any other personal property located in or about the Premises. If any such taxes on Tenant's equipment, furniture, fixtures and any other personal property are levied against Landlord or Landlord's property or if the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon such equipment, furniture, fixtures or any other personal property and if Landlord pays the taxes based upon such increased assessment, which Landlord shall have the right to do regardless of the validity thereof but only under proper protest if requested by Tenant, Tenant shall upon thirty (30) days' written demand repay to Landlord the taxes so levied against Landlord or the proportion of such taxes resulting from such increase in the assessment, as the case may be.

4.5.2 If the tenant improvements in the Premises, whether installed and/or paid for by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, are assessed for real property tax purposes at a valuation higher than the valuation at which tenant improvements conforming to Landlord's "building standard" in other space in the Building are assessed, then the Tax Expenses levied against Landlord or the property by reason of such excess assessed valuation shall be deemed to be taxes levied against personal property of Tenant and shall be governed by the provisions of Section 4.5.1, above.

4.5.3 Notwithstanding any contrary provision herein, Tenant shall pay prior to delinquency any taxes assessed upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

ARTICLE 5

USE OF PREMISES

5.1 **Permitted Use**. Tenant shall use the Premises solely for the Permitted Use set forth in Section 7 of the Summary and Tenant shall not use or permit the Premises or the Project to be used for any other purpose or purposes whatsoever without the prior written consent of Landlord, which may be withheld in Landlord's sole discretion.

5.2 **Prohibited Uses**. Tenant further covenants and agrees that Tenant shall not use, or suffer or permit any person or persons to use, the Premises or any part thereof for any use or purpose contrary to the provisions of the Rules and Regulations set forth in **Exhibit D**, attached hereto, or in violation of the laws of the United States of America, the State of California, the ordinances, regulations or requirements of the local municipal or county governing body or other lawful authorities having jurisdiction over the Project) including, without limitation, any such laws, ordinances, regulations or requirements relating to hazardous materials or substances, as those terms are defined by applicable laws now or hereafter in effect, or any Underlying Documents. Tenant shall not do or permit anything to be done in or about the Premises which will in any way damage the reputation of the Project or obstruct or interfere with the rights of other tenants or occupants of the Building, or injure them or use or allow the Premises to be used for any improper, unlawful purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall comply with, and Tenant's rights and obligations under the Lease and Tenant's use of the Premises shall be subject and subordinate to, all recorded easements, covenants, conditions, and restrictions now or hereafter affecting the Project. Landlord represents, warrants and covenants that Landlord owns the Project in fee simple title and there will be no easements, rights, covenants, conditions, restrictions, agreements, or other title matters including the Underlying Documents the enforcement of which would have a material adverse effect upon Tenant’s access or quiet enjoyment of the Premises. Landlord agrees that throughout the Term hereof it will not amend, adopt or enter into new Underlying Documents, covenants, conditions, restrictions, easements or other similar agreements which would have a material adverse effect upon Tenant’s access to or quiet enjoyment of the Premises, unless it is required by Applicable Laws to do so.

ARTICLE 6

SERVICES AND UTILITIES

6.1 **Standard Tenant Services**. Landlord shall provide the following services on all business days (unless otherwise stated below) during the Lease Term.

6.1.1 Subject to limitations imposed by all governmental rules, regulations and guidelines applicable thereto, Landlord shall provide heating and air conditioning ("**HVAC**") when reasonably necessary for normal comfort for normal office use in the Premises from 8 A.M. to 8 P.M. Monday through Friday, and on Saturdays from 9A.M. to 1 P.M. (collectively, the "**Building Hours**"), except for the date of observation of New Year's Day, Independence Day, Labor Day, Memorial Day, Thanksgiving Day, Christmas Day and, at Landlord's discretion, other nationally recognized holidays which are observed by other buildings comparable to and in the vicinity of the Building (collectively, the "**Holidays**").

6.1.2 Landlord shall provide adequate electrical wiring and facilities for connection to Tenant's lighting fixtures and incidental use equipment, provided that (i) the connected electrical load of the incidental use equipment does not exceed an average of two (2) watts per usable square foot of the Premises, excluding specific rated 120v equipment such as copiers, scanners, etc., calculated during Building Hours, on a monthly basis, and the electricity so furnished for incidental use equipment will be at a nominal one hundred twenty (120) volts and no electrical circuit for the supply of such incidental use equipment will require a current capacity exceeding twenty (20) amperes, and (ii) the connected electrical load of Tenant's lighting fixtures does not exceed an average of one (1) watt per usable square foot of the Premises, excluding 125% of the code required, Load Continuous Load

(“LCL”), calculated during Building Hours, upon a monthly basis, and the electricity so furnished for Tenant's lighting will be at a nominal two hundred seventy-seven (277) volts, which electrical usage shall be subject to applicable laws and regulations, including Title 24. Tenant shall bear the cost of replacement of lamps, starters and ballasts for non-Building standard lighting fixtures within the Premises.

6.1.3 Landlord shall provide city water from the regular Building outlets for drinking, lavatory and toilet purposes in the Premises and Building Common Areas.

6.1.4 Landlord shall provide janitorial services to the Premises Monday through Friday after Building Hours, except the date of observation of the Holidays, in and about the Premises and window washing services in a manner consistent with other comparable buildings in the vicinity of the Building.

6.1.5 Landlord shall provide nonexclusive, non-attended automatic passenger elevator service during the Building Hours, and shall have one elevator available at all other times, including on the Holidays.

6.1.6 Landlord shall provide nonexclusive freight elevator service subject to scheduling by Landlord.

Tenant shall cooperate fully with Landlord at all times and abide by all regulations and requirements that Landlord may reasonably prescribe for the proper functioning and protection of the HVAC, electrical, mechanical and plumbing systems. After hours HVAC will be chargeable to Tenant at a rate of $100.00 per hour.

6.2 **Overstandard Tenant Use**. Tenant shall not, without Landlord's prior written consent (which shall not be unreasonably withheld, conditioned or delayed), use heat-generating machines other than normal office machines incidental to the conduct of general office business, or equipment or lighting other than Building standard lights in the Premises, which affect the temperature otherwise maintained by the air conditioning system or increase the water normally furnished for the Premises by Landlord pursuant to the terms of Section 6.1 of this Lease. If Tenant uses water, electricity, heat or air conditioning in excess of that supplied by Landlord pursuant to Section 6.1 of this Lease, Tenant shall pay to Landlord, within thirty (30) days of billing, the actual additional cost of such excess consumption, the cost of the installation, operation, and maintenance of equipment which is installed in order to supply such excess consumption, and the cost of the increased wear and tear on existing equipment caused by such excess consumption; and if Tenant is a habitual user of such excess services, Landlord may require Tenant to install devices to separately meter any increased use and in such event Tenant shall pay the actual increased cost directly to Landlord, as Additional Rent, at the actual rates charged by the public utility company furnishing the same, including the cost of installing, testing and maintaining of such additional metering devices. Tenant's use of electricity shall never exceed the capacity of the feeders to the Project or the risers or wiring installation, and subject to the terms of Section 29.31, below, Tenant shall not install or use or permit the installation or use of any computer or electronic data processing equipment in the Premises other than those incidental to the conduct of general office business, without the prior written consent of Landlord, which shall not be unreasonably withheld, conditioned or delayed. If Tenant desires to use heat, ventilation or air conditioning during hours other than those for which Landlord is obligated to supply such utilities pursuant to the terms of Section 6.1 of this Lease, Tenant shall give Landlord such prior notice, if any, as Landlord shall from time to time establish as appropriate, of Tenant's desired use in order to supply such utilities, and Landlord shall supply such utilities to Tenant the hourly cost set forth above in Section 6.1.6 (which shall be treated as Additional Rent).

6.3 **Interruption of Use**. Tenant agrees that Landlord shall not be liable for damages, by abatement of Rent or otherwise, for failure to furnish or delay in furnishing any service (including telephone and telecommunication services), or for any diminution in the quality or quantity thereof, when such failure or delay or diminution is occasioned, in whole or in part, by breakage, repairs, replacements, or improvements, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, or other fuel at the Building or Project after reasonable effort to do so, by any riot or other dangerous condition, emergency, accident or casualty whatsoever, by act or default of Tenant or other parties, or by any other cause beyond Landlord's reasonable control;

and such failures or delays or diminution shall never be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from paying Rent or performing any of its obligations under this Lease, except that if such failure to furnish services results from the negligence or willful misconduct of Landlord or Landlord's agent, or continues in excess of three (3) consecutive days, and as a result thereof Tenant is unable to operate its business from the Premises, then, in such event, Tenant's Base Rent and regularly recurring Additional Rent hereunder shall abate during the period thereof. Furthermore, Landlord shall not be liable under any circumstances for a loss of, or injury to, property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure to furnish any of the services or utilities as set forth in this Article 6.

6.4 **Additional Services**. Landlord shall have the right, but not the obligation, to provide any additional services which may be requested by Tenant, including, without limitation, locksmith, excess utilities, and additional repairs and maintenance, provided that Tenant shall pay to Landlord the sum of all costs to Landlord of such additional services plus a fifteen percent (15%) administration fee within ten (10) days after billing therefor.

ARTICLE 7

REPAIRS

7.1 **Tenant's Repair Obligations**. Subject to the provisions of this Lease relating to Landlord's maintenance and repair obligations, condemnation and damage and destruction and Landlord's obligations set forth in Section 6, Tenant shall, at Tenant's own expense, keep the Premises, including all improvements, fixtures, furnishings, furniture, and systems and equipment therein (including, without limitation, plumbing fixtures and equipment such as dishwashers, garbage disposals, and insta-hot dispensers), and the floor or floors of the Premises, in good order, repair and condition at all times during the Lease Term. In addition, Tenant shall, at Tenant's own expense and within a reasonable period of time following written notice from Landlord, promptly and adequately repair all damage to the Premises and replace or repair all damaged, broken, or worn fixtures and appurtenances, except for damage caused by ordinary wear and tear or beyond the reasonable control of Tenant; provided however, that, at Landlord's option, or if Tenant fails to make such repairs within fifteen (15) days following written notice from Landlord (or if such repairs cannot reasonably be completed within such fifteen (15) day period and Tenant shall fail to commence such repairs within fifteen (15) days after notice and proceed diligently to completion thereafter), Landlord may, but need not, make such repairs and replacements, and Tenant shall pay Landlord the cost thereof, plus an administrative charge equal to ten percent (10%) of the cost thereof to reimburse Landlord for all overhead, general conditions, fees and other costs or expenses arising from Landlord's involvement with such repairs and replacements within thirty (30) days after Tenant's receipt of paid invoices from Landlord. Subject to Section 10.6, (Waiver of Subrogation), Landlord will be responsible for the repair of any damages to the Premises caused by the negligence or willful misconduct of Landlord, its agents, employees or contractors.

7.2 **Landlord's Repair Obligations**. Notwithstanding the foregoing provisions, Landlord, at its sole cost and expense without reimbursement from Tenant, shall be responsible for the maintenance and repairs of the structural elements of the Building and the Premises, the exterior walls, foundation and roof of the Building, and the base building systems and equipment of the Building and Common Areas, except to the extent that such repairs are required due to the negligence or willful misconduct of Tenant, its agents, contractors, employees, licensees and/or invitees (while in the Premises); provided, however, that if such repairs are due to the negligence or willful misconduct of Tenant, its agents, contractors, employees, licensees and/or invitees (while in the Premises), Landlord shall nevertheless make such repairs at Tenant's expense, or, if covered by Landlord's insurance, Tenant shall only be obligated to pay any deductible in connection therewith. Landlord may enter the Premises at all reasonable times upon not less than forty-eight (48) hours' notice, to make such repairs, alterations, improvements or additions to the Premises or to the Project or to any equipment located in the Project as Landlord shall be required herein, or desire or deem necessary or as Landlord may be required to do by governmental or quasi-governmental authority or court order or decree. Tenant hereby waives any and all rights under and benefits of subsection 1 of Section 1932 and Sections 1941 and 1942 of the California Civil Code or under any similar law, statute, or ordinance now or hereafter in effect. In the event of the failure of Landlord to comply with any of its maintenance or repair obligations with respect to the Premises within fifteen (15) days after Landlord has received written notice thereof from Tenant (or if such repairs cannot reasonably be completed within such fifteen (15) day period and Landlord shall fail to commence such repairs within fifteen (15) days after notice and proceed diligently to completion thereafter), then Tenant, following a second 15-day written notice, may either: (i) if Landlord's failure to make the required repairs has a material adverse effect upon Tenant's access, use or occupancy of the Premises, terminate this Lease, provided, however, in the event that Landlord disputes Tenant's right to terminate the Lease pursuant to this subsection (i) by providing written notice thereof to Tenant within the second 15-day notice period, then the dispute will be resolved pursuant to the expedited arbitration provisions set forth in **Exhibit H**, and if the arbitrator's determination is that Landlord has the obligation to make the required repairs and the failure to do so has a material adverse effect upon Tenant's access, use or occupancy of the Premises, then Landlord shall have a reasonable time, not to exceed thirty (30) days from the arbitrator's notice, to complete such repairs, in which case Tenant shall not be entitled to terminate this Lease); or (ii) prosecute such repairs itself, and in the event Landlord fails to reimburse Tenant for the cost of such repairs within thirty (30) days of written invoice thereof from Tenant, apply the reasonable cost of such repairs, plus an administrative charge equal to ten percent (10%) of the cost thereof against the next maturing monthly installment or installments of Base Rent due hereunder. Notwithstanding the above, in the case of an emergency affecting safety or access, Tenant shall have the right to immediately prosecute any and all repairs and shall deliver contemporaneous written notification to Landlord of the emergency and related repairs, and, in the event Landlord does not reimburse Tenant for the reasonable costs of such repairs within thirty (30) days after Landlord's receipt of paid invoices from Tenant, offset the cost of such repairs against the next maturing monthly installment or installments of Rent due hereunder; provided further that if contemporaneous written notice is not practicable, as determined by Tenant in its reasonable judgment, then Tenant shall provide such written notice as soon thereafter as reasonably practicable.

ARTICLE 8

ADDITIONS AND ALTERATIONS

8.1 **Landlord's Consent to Alterations**. After completion of Tenant's Work, Tenant may not make any improvements, alterations, additions or changes to the Premises or any mechanical, plumbing or HVAC facilities or systems pertaining to the Premises (collectively, the "**Alterations**") without first procuring the prior written consent of Landlord to such Alterations, which consent shall be requested by Tenant not less than thirty (30) days prior to the commencement thereof, and which consent shall not be unreasonably withheld by Landlord, provided it shall be deemed reasonable for Landlord to withhold its consent to any Alteration which adversely affects the structural portions or the systems or equipment of the Building or is visible from the exterior of the Building. The construction of the initial improvements to the Premises, including Tenant's Work, shall be governed by the terms of the Tenant Work Letter and Article 2 and not the terms of this Article 8. Notwithstanding the above provisions, Tenant shall be entitled to construct and install an internal staircase between the 3rd Floor Premises and the 4th Floor Premises without Landlord's prior written consent but subject to Landlord's approval of the plans and specifications and working drawings, and subject to the requirements set forth in Sections 8.2, 8.3 and 8.4 below. Furthermore, in the event that Tenant does in fact install such internal staircase, then Tenant agrees to remove same and repair all damages resulting therefrom so as to place the 3rd Floor Premises and the 4th Floor Premises into the same condition as they existing prior to the installation of such staircase upon the expiration of the Term or earlier termination of the Lease other than with regard to a termination resulting from a casualty, condemnation, or Landlord's default. Landlord shall not charge Tenant with any review or oversight fees in connection with its review and approval of Tenant's plans and specifications relating to said staircase. From time to time during the Lease Term after completion of Tenant's Work, Tenant may, at its own expense and after giving Landlord written notice of its intention to do so, make Alterations, in and to the non-structural, non-mechanical portions of the interior of the Premises as it may find necessary or convenient for its purposes, provided that the value of the Premises is not thereby diminished, and provided further, that no Alterations costing in excess of One Hundred Thousand Dollars ($100,000.00) in the aggregate in any twelve (12) consecutive month period may be made without first obtaining Landlord's prior written approval, which approval shall not be unreasonably withheld, delayed or conditioned. In addition, no Alterations shall be made to any structural portions of the Premises, mechanical systems, or to the exterior of the Premises, including without limitation, the exterior walls or roof of the Premises, nor shall Tenant erect any mezzanine, unless and until the written consent and approval of Landlord shall have first been obtained, which approval may be given or withheld in Landlord's reasonable discretion. Notwithstanding any other provisions of this Lease to the contrary, Tenant shall be permitted to reuse the existing mast on the roof for mounting antenna/telecommunication purposes as well as existing conduits required from the roof to Tenant's Premises and to the Building's low voltage riser room, as required per Tenant's installation of Tenant's data and communication system. Tenant shall also be allowed access, at reasonable times and upon not less than twenty-four (24) hours' notice to Landlord, to the Building's common data/telecom room as needed for installation and maintenance of Tenant's communication system. Tenant's use of the existing equipment will be at Tenant's sole cost and expense, and on an "AS-IS" basis, without any warranty or representation by Landlord. Tenant will be entitled to reasonable access to the roof upon not less than twenty-four (24) hours' prior written notice to Landlord for purposes of maintaining the above-described equipment. All Alterations shall be done in a good and workmanlike manner, in compliance with all Applicable Laws and diligently prosecuted to completion to the end that the Premises shall at all times be a complete unit except during the period of work.

8.2 **Manner of Construction**. Landlord may impose, as a condition of its consent to any and all Alterations or repairs of the Premises or about the Premises, such requirements as Landlord in its reasonable discretion may deem desirable, including, but not limited to, the requirement that Tenant utilize for such purposes only contractors, subcontractors, materials, mechanics and materialmen selected by Tenant from a list provided and approved by Landlord, the requirement that upon Landlord's request, Tenant shall, at Tenant's expense, remove such Alterations upon the expiration or any early termination of the Lease Term. Tenant shall construct such Alterations and perform such repairs in a good and workmanlike manner, in conformance with any and all applicable federal, state, county or municipal laws, rules and regulations and pursuant to a valid building permit, issued by the City of Manhattan Beach, all in conformance with Landlord's construction rules and regulations; provided, however, that prior to commencing to construct any Alteration, Tenant shall meet with Landlord to discuss Landlord's design parameters and code compliance issues. In the event Tenant performs any Alterations in the Premises which require or give rise to governmentally required changes to the "Base Building," as that term is defined below, then Landlord shall, at Tenant's expense, make such changes to the Base Building. The "**Base Building**" shall include the structural portions of the Building, and the public restrooms, elevators, exit stairwells and the systems and equipment located in the internal core of the Building on the floor or floors on which the Premises are located. In performing the work of any such Alterations, Tenant shall have the work performed in such manner so as not to obstruct access to the Project or any portion thereof, by any other tenant of the Project, and so as not to obstruct the business of Landlord or other tenants in the Project. Tenant shall not use (and upon notice from Landlord shall cease using) contractors, services, workmen, labor, materials or equipment that, in Landlord's reasonable judgment, would disturb labor harmony with the workforce or trades engaged in performing other work, labor or services in or about the Building or the Common Areas. In addition to Tenant's obligations under Article 9 of this Lease, upon completion of any Alterations, Tenant agrees to cause a Notice of Completion to be recorded in the office of the Recorder of the County of Los Angeles in accordance with Section 8182 of the Civil Code of the State of California or any successor statute, and Tenant shall deliver to the Project construction manager a reproducible copy of the "**as built**" drawings of the Alterations as well as all permits, approvals and other documents issued by any governmental agency in connection with the Alterations.

8.3 **Payment for Improvements**. If payment is made by Tenant directly to contractors, Tenant shall (i) comply with Landlord's requirements for final lien releases and waivers in connection with Tenant's payment for work to contractors, and (ii) sign Landlord's standard contractor's rules and regulations. If Tenant orders any work directly from Landlord, Tenant shall pay to Landlord an amount equal to ten percent (10%) of the cost of such work to compensate Landlord for all overhead, general conditions, fees and other costs and expenses arising from Landlord's involvement with such work. If Tenant does not order any work directly from Landlord, Tenant shall reimburse Landlord for Landlord's reasonable, actual, out-of-pocket costs and expenses actually incurred in connection with Landlord's review of such work. At Landlord's option, prior to the commencement of construction of any Alteration, Tenant shall provide Landlord with the reasonably anticipated cost thereof, which Landlord shall disburse during construction pursuant to Landlord's standard, commercially reasonable disbursement procedure.

8.4 **Construction Insurance**. In addition to the requirements of Article 10 of this Lease, in the event that Tenant makes any Alterations, prior to the commencement of such Alterations, Tenant shall provide Landlord with evidence that Tenant carries "**Builder's All Risk**" insurance in an amount approved by Landlord covering the construction of such Alterations, and such other insurance as Landlord may reasonably approve, it being understood and agreed that all of such Alterations shall be insured by Tenant pursuant to Article 10 of this Lease immediately upon completion thereof. In addition, Tenant's contractors and subcontractors shall be required to carry Commercial General Liability Insurance in an amount reasonably approved by Landlord and otherwise in accordance with the requirements of Article 10 of this Lease. Landlord may, in its discretion, require Tenant to obtain a lien and completion bond or some alternate form of security satisfactory to Landlord in an amount sufficient to ensure the lien-free completion of such Alterations and naming Landlord as a co-obligee.

8.5 **Landlord's Property**. Except as otherwise expressly set forth herein, all Alterations, improvements, fixtures, equipment and/or appurtenances (except movable furniture and equipment belonging to Tenant) which may be installed or placed in or about the Premises by Tenant, from time to time, shall be at the sole cost of Tenant and shall upon termination of the Lease become the property of Landlord, except that Tenant may remove any readily removable Alterations, improvements, fixtures and/or equipment installed by Tenant, provided Tenant repairs any damage to the Premises and Building caused by such removal. Furthermore, Landlord may, by written notice to Tenant prior to the end of the Lease Term, or given following any earlier termination of this Lease, require Tenant, at Tenant's expense, to remove any Alterations and/or improvements and/or systems and equipment within the Premises installed by Tenant (excluding Tenant’s Work) and to repair any damage to the Premises and Building caused by such removal. If Tenant fails to complete such removal and/or to repair any damage caused by the removal of any Alterations and/or improvements and/or systems and equipment in the Premises, Landlord may do so and may charge the cost thereof to Tenant. Tenant hereby protects, defends, indemnifies and holds Landlord harmless from any liability, cost, obligation, expense or claim of lien in any manner relating to the installation, placement, removal or financing of any such Alterations, improvements, fixtures and/or equipment in, on or about the Premises, which obligations of Tenant shall survive the expiration or earlier termination of this Lease.

ARTICLE 9

COVENANT AGAINST LIENS

Tenant shall keep the Project and Premises free from any liens or encumbrances arising out of the work performed, materials furnished or obligations incurred by or on behalf of Tenant, and shall protect, defend, indemnify and hold Landlord harmless from and against any claims, liabilities, judgments or costs (including, without limitation, reasonable attorneys' fees and costs) arising out of same or in connection therewith. Tenant shall give Landlord notice at least thirty (30) days prior to the commencement of any such work on the Premises (or such additional time as may be necessary under applicable laws) to afford Landlord the opportunity of posting and recording appropriate notices of non-responsibility. Tenant shall remove any such lien or encumbrance by bond or otherwise within thirty (30) business days after notice by Landlord (provided, however, in the event that Landlord is in the process of completing a refinance or sale of the Building, then Landlord’s notice may shorten the time period for Tenant’s compliance to ten (10) business days after notice by Landlord), and if Tenant shall fail to do so, Landlord may pay the amount necessary to remove such lien or encumbrance, without being responsible for investigating the validity thereof. The amount so paid shall be deemed Additional Rent under this Lease payable upon demand, without limitation as to other remedies available to Landlord under this Lease. Nothing contained in this Lease shall authorize Tenant to do any act which shall subject Landlord's title to the Building or Premises to any liens or encumbrances whether claimed by operation of law or express or implied contract. Any claim to a lien or encumbrance upon the Building or Premises arising in connection with any such work or respecting the Premises not performed by or at the request of Landlord shall be null and void, or at Landlord's option shall attach only against Tenant's interest in the Premises and shall in all respects be subordinate to Landlord's title to the Project, Building and Premises.

ARTICLE 10

INSURANCE

10.1 **Indemnification and Waiver**. Tenant hereby assumes all risk of damage to its property in, upon or about the Premises from any cause whatsoever, (except, subject to the provisions of Section 10.6, for damage or injury caused by the negligence or willful misconduct of Landlord or Landlord Parties) and Tenant further agrees that Landlord, its partners, subpartners and their respective officers, agents, servants, employees, and independent contractors (collectively, "**Landlord Parties**") shall not be liable for, and are hereby released from any responsibility for, any damage to property or resulting from the loss of use thereof, which damage is sustained by Tenant.

10.1.1 Subject to the provisions of Section 10.6, Tenant shall indemnify, defend, protect, and hold harmless the Landlord Parties from any and all claim, loss, cost, damage, expense and liability (including without limitation court costs and reasonable attorneys' fees) to the extent incurred in connection with or arising from Tenant’s use and/or occupancy of the Premises (including, but not limited to, a slip and fall), any negligent act or omission of Tenant, or of the contractors, agents, servants, employees, licensees, invitees or guests (while in the Premises) of Tenant or any breach of the terms of this Lease by Tenant, either prior to, during, or after the expiration of the Lease Term, provided that the terms of the foregoing indemnity shall not apply to the extent arising from the negligence or willful misconduct of Landlord or the Landlord Parties or to the extent covered by insurance maintained or required to be maintained by Landlord hereunder. Should Landlord be named as a defendant in any suit brought against Tenant in connection with or arising out of Tenant's occupancy of the Premises, for which Tenant has the obligation to indemnify Landlord pursuant to the provisions of this Section 10.1.1, Tenant’s indemnification obligations shall include the payment to Landlord of its costs and expenses reasonably incurred in such suit, including without limitation, its actual professional fees such as reasonable appraisers', accountants' and attorneys' fees. Notwithstanding the above provisions, in no event shall Tenant be required to indemnify Landlord with regard to Landlord’s general, indirect or consequential damages. The provisions of this Section 10.1 shall survive the expiration or sooner termination of this Lease with respect to any claims or liability arising in connection with any event occurring prior to such expiration or termination.

10.1.2 Subject to the provisions of Section 10.6, Landlord shall indemnify, defend, protect, and hold harmless Tenant and its officers, directors, affiliates, agents, representatives, employees and contractors from any and all claim, loss, cost, damage, expense and liability (including without limitation court costs and reasonable attorneys' fees) to the extent incurred in connection with or arising out of any negligent act or omission of Landlord, its agents, contractors, or employees; any default or breach by Landlord in the performance in a timely manner of any obligation on Landlord's part to be performed under this Lease; or any occurrence in the Common Areas, provided that the terms of the foregoing indemnity shall not apply to the extent arising from the negligence or willful misconduct of Tenant, its agents, employees or contractors or to the extent covered by insurance maintained or required to be maintained by Tenant hereunder. If any action or proceeding is brought against Tenant by reason of any of the foregoing matters, Landlord shall upon notice defend the same at Landlord's expense by counsel reasonably satisfactory to Tenant and Tenant shall cooperate with Landlord in such defense. Notwithstanding the above provisions, in no event shall Landlord be required to indemnify Tenant with regard to Tenant's general, indirect or consequential damages. The provisions of this Paragraph 10.1.2 shall survive the expiration or earlier termination of this Lease

10.2 **Tenant's Compliance With Landlord's Fire and Casualty Insurance**. Tenant shall, at Tenant's expense, comply with all insurance company requirements pertaining to the use of the Premises. If Tenant's conduct or use of the Premises causes any increase in the premium for such insurance policies which is not cured by Tenant within ten (10) days prior written notice from Landlord, then Tenant shall reimburse Landlord for any such increase. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the American Insurance Association (formerly the National Board of Fire Underwriters) and with any similar body.

10.3 **Tenant's Insurance**. Tenant shall maintain the following coverages in the following amounts.

10.3.1 Commercial General Liability Insurance on an occurrence form covering the insured against claims of bodily injury, personal injury and property damage (including loss of use thereof) arising out of Tenant's operations, and contractual liabilities (covering the performance by Tenant of its indemnity agreements) including a Special Form endorsement covering the insuring provisions of this Lease and the performance by Tenant of the indemnity agreements set forth in Section 10.1 of this Lease, and including products and completion operations coverage, for limits of liability on a per location basis of not less than:

Bodily Injury and	$5,000,000 each occurrence
Property Damage Liability	$5,000,000 annual aggregate
Personal Injury Liability	$5,000,000 each occurrence
	$5,000,000 annual aggregate
	0% Insured's participation

10.3.2 "All Risks" (i.e. "special form") Physical Damage Insurance covering (i) all office furniture, business and trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property on the Premises installed by, for, or at the expense of Tenant, (ii) the "**Tenant Improvements**," as that term is defined in the Tenant Work Letter, and any other improvements which exist in the Premises as of the Lease Commencement Date (excluding the Base Building) (the "**Original Improvements**"), and (iii) all other improvements, alterations and additions to the Premises. Such insurance shall be written on an "**all risks**" (i.e. "special form") of physical loss or damage basis, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance and shall include coverage for damage or other loss caused by fire, flood or other peril including, but not limited to, vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion, and providing business interruption coverage for a period of one year.

10.3.3 Worker's Compensation and Employer's Liability or other similar insurance pursuant to all applicable state and local statutes and regulations.

10.3.4 Tenant shall have the right to provide any of the above coverages by means of blanket, “excess” or “umbrella” insurance policy(ies), provided that the coverages and limits thereof provided above are met.

10.4 **Form of Policies**. The minimum limits of policies of insurance required of Tenant under this Lease shall in no event limit the liability of Tenant under this Lease. Such liability insurance shall (i) name Landlord, and any other party the Landlord reasonably specifies, as an additional insured, including Landlord's managing agent, if any; (ii) specifically cover the liability assumed by Tenant under this Lease, including, but not limited to, Tenant's obligations under Section 10.1 of this Lease; (iii) be issued by an insurance company having a rating of not less than A-X in Best's Insurance Guide or which is otherwise acceptable to Landlord and Mortgagee of Landlord and licensed to do business in the State of California; (iv) be primary and noncontributory insurance as to all claims thereunder and provide that any insurance carried by Landlord is excess and is non-contributing with any insurance requirement of Tenant; and (v) provide that said insurance shall not be canceled or coverage changed unless ten (10) days' prior written notice shall have been given to Landlord. Tenant shall deliver said policy or policies or certificates thereof to Landlord on or before the Lease Commencement Date and at least ten (10) days before the expiration dates thereof. Further, Landlord shall have the right, from time to time, to request copies of policies of Tenant's insurance required hereunder, which Tenant shall thereafter provide at Landlord’s cost within ten (10) business days. In the event Tenant shall fail to procure such insurance, or to deliver such policies or certificate, Landlord may, at its option, following five (5) business days’ prior written notice, procure such policies for the account of Tenant, and the cost thereof shall be paid to Landlord within thirty (30) days after delivery to Tenant of bills therefor.

10.5 **Landlord's Insurance**. Landlord shall obtain and keep in full force throughout the Lease Term a policy of commercial general liability and property damage insurance (including automobile, personal injury, broad form contractual liability and broad form property damage) insuring against all liability or claims of liability for personal injury, death or property damage arising out of, occasioned by or resulting from the use or occupancy of the Common Areas or the Project, in an amount not less than $5,000,000.00 combined single limit. Landlord shall also obtain and keep in full force throughout the Lease Term a policy of full replacement value "special form" insurance covering the Building (exclusive of Tenants' personal property, Alterations and improvements) insuring against perils included under a standard "special form" insurance policy. The insurance coverage called for above shall comply with the same insurance criteria as that applicable to Tenant pursuant to Section 10.4.

10.6 **Waiver of Subrogation**. Landlord and Tenant release each other from any claims and demands of whatever nature for damage, loss or injury to the Premises, Building and/or the Project, that are caused by or result from risks or perils insured against under any insurance policies required by this Lease to be carried by Landlord and/or Tenant. Landlord and Tenant shall cause each insurance policy obtained by them or either of them to provide that the insurance company waives all right of recovery by way of subrogation against either Landlord or Tenant in connection with any damage covered by any policy. Neither Landlord nor Tenant shall be liable to the other for any damage caused by fire or any of the risks insured against under any insurance policy required by this Lease. Landlord and Tenant agree that their respective insurance policies are now, or shall be, endorsed such that the waiver of subrogation shall not affect the right of the insured to recover thereunder. Notwithstanding the above, in the event that a party’s property is damaged as a result of the negligence or willful misconduct of the other party, its agents, employees or contractors, which damage is otherwise covered by the insurance maintained or required to be maintained by the owner of the property, the owner of the property shall nonetheless be entitled to reimbursement of its deductible from the other party.

10.7 **Additional Insurance Obligations**. Tenant shall carry and maintain during the entire Lease Term, at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to this Article 10 and such other reasonable types of insurance coverage and in such reasonable amounts covering the Premises and Tenant's operations therein, as may be reasonably requested by Landlord, but in no event in excess of the amounts and types of insurance then being required by landlords of buildings comparable to and in the vicinity of the Building.

ARTICLE 11

DAMAGE AND DESTRUCTION

11.1 **Repair of Damage to Premises by Landlord**. Tenant shall promptly notify Landlord of any damage to the Premises resulting from fire or any other casualty or any condition existing in the Premises as a result of a fire or other casualty that would give rise to the terms of this Article 11. If the Premises or any Common Areas serving or providing access to the Premises shall be damaged by fire or other casualty or be subject to a condition existing as a result of a fire or other casualty, and the Lease is not terminated pursuant to the provisions of Section 11.2 below, Landlord shall promptly and diligently, subject to reasonable delays for insurance adjustment or other matters beyond Landlord's reasonable control, and subject to all other terms of this Article 11, restore the Base Building including Landlord’s Work and such Common Areas at the expense of Landlord. Such restoration shall be to substantially the same condition of the Base Building including Landlord’s Work and the Common Areas prior to the casualty, except for modifications required by zoning and building codes and other laws or by the holder of a mortgage on the Building or Project or any other modifications to the Common Areas deemed desirable by Landlord, which are consistent with the character of the Project, provided that access to the Premises and any common restrooms serving the Premises shall not be materially impaired, and a just and proportionate part of the Rent shall be abated until so repaired and restored so that Tenant can operate its business from a repaired and restored Premises, in an amount based upon the extent to which the Premises are untenantable. In no event in the case of any such destruction shall Landlord be required to repair or replace Tenant’s improvements or Alterations, but the Rent hereunder shall abate for the period reasonably necessary after completion of Landlord’s repairs and restorations to the Premises (but in no event longer than ninety (90) days) to allow Tenant to complete its Alterations and improvements to Premises, and to enable Tenant to conduct is business from the Premises. Prior to the commencement of construction, Tenant shall submit to Landlord, for Landlord's review and approval, all plans, specifications and working drawings relating thereto, and Landlord shall approve the contractors to perform such improvement work. Landlord shall not be liable for any inconvenience or annoyance to Tenant or its visitors, or injury to Tenant's business resulting in any way from such damage or the repair thereof, except as otherwise expressly provided herein.

11.2 **Landlord's Option to Repair**. Notwithstanding the terms of Section 11.1 of this Lease, Landlord may elect not to rebuild and/or restore the Premises, Building and/or Project, and instead terminate this Lease, by notifying Tenant in writing of such termination within sixty (60) days after the date of discovery of the damage, such notice to include a termination date giving Tenant one hundred twenty (120) days to vacate the Premises, but Landlord may so elect only if the Building or Project shall be damaged by fire or other casualty or cause or be subject to a condition existing as a result of a fire or other casualty or cause, whether or not the Premises are affected, and one or more of the following conditions is present: (i) in Landlord's reasonable judgment, repairs cannot reasonably be completed within four hundred twenty (420) days after the date of discovery of the damage (when such repairs are made without the payment of overtime or other premiums); or (ii) the holder of any mortgage on the Building or Project or ground lessor with respect to the Building or Project shall require that the insurance proceeds or any portion thereof be used to retire the mortgage debt, or shall terminate the ground lease, as the case may be; (iii) the cost of repair of which is in excess of Fifty Thousand Dollars ($50,000) and is not covered by Landlord's insurance policies; or (iv) the damage occurs during the last twelve (12) months of the Lease Term; provided, however, that if Landlord does not elect to terminate this Lease pursuant to Landlord's termination right as provided above, and the repairs cannot, in the reasonable opinion of Landlord’s independent licensed architect, be completed within one hundred and eighty (180) days after the date of discovery of the damage, Tenant may elect, no earlier than ninety (90) days after the date of the damage and not later than one hundred eighty days (180) days after the date of such damage, to terminate this Lease by written notice to Landlord effective as of the date specified in the notice, which date shall not be less than ninety (90) days nor more than one hundred twenty (120) days after the date such notice is given by Tenant. Landlord shall provide the determination of Landlord’s independent licensed architect to Tenant within sixty (60) days after the date of the damage. If Tenant disputes the opinion of Landlord’s independent licensed architect, by providing written notice thereof to Landlord within ten (10) business days of its receipt of Landlord’s notice of termination, based upon the opinion of Tenant’s independent architect, and the parties are unable to resolve the dispute, then it shall be resolved pursuant to the expedited arbitration provisions of

Exhibit H. In the event that Landlord fails to provide Tenant with notice of Landlord's independent licensed architect's determination in a timely manner, then the determination may be made by Tenant's independent licensed architect.

11.3 **Tenant's Right to Terminate**, Notwithstanding the foregoing, in the event that neither Tenant nor Landlord elects to terminate this Lease pursuant to the provisions of Section 11.2, and all repairs to the Premises or Building or Project required of Landlord hereunder are not completed within one hundred and eighty (180) days following such damage or destruction, then Tenant shall be entitled to provide a ninety (90) day written notice to Landlord of its intent to terminate, and unless such repairs are completed within said ninety (90) days, then this Lease shall terminate at the expiration thereof.

11.4 **Waiver of Statutory Provisions**. The provisions of this Lease, including this Article 11, constitute an express agreement between Landlord and Tenant with respect to any and all damage to, or destruction of, all or any part of the Premises, the Building or the Project, and any statute or regulation of the State of California, including, without limitation, Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties, and any other statute or regulation, now or hereafter in effect, shall have no application to this Lease or any damage or destruction to all or any part of the Premises, the Building or the Project.

ARTICLE 12

NONWAIVER

No provision of this Lease shall be deemed waived by either party hereto unless expressly waived in a writing signed thereby. The waiver by either party hereto of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No acceptance of a lesser amount than the Rent herein stipulated shall be deemed a waiver of Landlord's right to receive the full amount due, nor shall any endorsement or statement on any check or payment or any letter accompanying such check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the full amount due. No receipt of monies by Landlord from Tenant after the termination of this Lease shall in any way alter the length of the Lease Term or of Tenant's right of possession hereunder, or after the giving of any notice shall reinstate, continue or extend the Lease Term or affect any notice given Tenant prior to the receipt of such monies, it being agreed that after the service of notice or the commencement of a suit, or after final judgment for possession of the Premises, Landlord may receive and collect any Rent due, and the payment of said Rent shall not waive or affect said notice, suit or judgment.

ARTICLE 13

CONDEMNATION

If the whole or any part of the Premises, Building or Project shall be taken by power of eminent domain or condemned by any competent authority for any public or quasi-public use or purpose, or if any adjacent property or street shall be so taken or condemned, or reconfigured or vacated by such authority in such manner as to require the use, reconstruction or remodeling of any part of the Premises, Building or Project, or if Landlord shall grant a deed or other instrument in lieu of such taking by eminent domain or condemnation, Landlord shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. If more than twenty-five percent (25%) of the rentable square feet of the Premises is taken, or if access to the Premises is substantially impaired, in each case for a period in excess of one hundred eighty (180) days, Tenant shall have the option to terminate this Lease effective as of the date possession is required to be surrendered to the authority. Notwithstanding the foregoing, in the event that such taking deprives Tenant of its ability to operate its business from the Premises for more than one hundred twenty (120) consecutive days, then Tenant shall be entitled to terminate this Lease, upon written notice to Landlord. Tenant shall not because of such taking assert any claim against Landlord or the authority for any compensation because of such taking and Landlord shall be entitled to the entire award or payment in connection therewith, except that Tenant shall have the right to file any separate claim available to Tenant for any taking of Tenant's Alterations, improvements, personal property and fixtures belonging to Tenant and removable by Tenant upon expiration of the Lease Term pursuant to the terms of this Lease, and for moving expenses, so long as such claims do not diminish the award available to Landlord, its ground lessor with respect to the Building or Project or its mortgagee, and such claim is payable separately to Tenant. All Rent shall be apportioned as of the date of such termination. If any part of the Premises shall be taken, and this Lease shall not be so terminated, the Rent shall be equitably abated in proportion to the loss of utilization of the Premises. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of The California Code of Civil Procedure. In the event of a temporary taking of all or any portion of the Premises for a period of one hundred and eighty (180) days or less and such taking does not deprive Tenant of its ability to operate its business from the Premises for more than one hundred twenty (120) consecutive days, then this Lease shall not terminate but the Base Rent and the Additional Rent shall be equitably abated for the period of such taking in proportion to the loss of utilization of the Premises. Landlord shall be entitled to receive the entire award made in connection with any such temporary taking.

ARTICLE 14

ASSIGNMENT AND SUBLETTING

14.1 **Transfers**. Tenant shall not, without the prior written consent of Landlord (which consent shall not be unreasonably withheld, conditioned or delayed), assign, mortgage, pledge, hypothecate, encumber, or permit any lien to attach to, or otherwise transfer, this Lease or any interest hereunder, permit any assignment, or other transfer of this Lease or any interest hereunder by operation of law, sublet the Premises or any part thereof, or enter into any license or concession agreements or otherwise permit the occupancy or use of the Premises or any part thereof by any persons other than Tenant and its employees and contractors (all of the foregoing are hereinafter sometimes referred to collectively as "**Transfers**" and any person to whom any Transfer is made or sought to be made is hereinafter sometimes referred to as a "**Transferee**"). If Tenant desires Landlord's consent to any Transfer, Tenant shall notify Landlord in writing, which notice (the "**Transfer Notice**") shall include (i) the proposed effective date of the Transfer, which shall not be less than thirty (30) days nor more than one hundred eighty (180) days after the date of delivery of the Transfer Notice, (ii) a description of the portion of the Premises to be transferred (the "**Subject Space**"), (iii) all of the terms of the proposed Transfer and the consideration therefor, including calculation of the "**Transfer Premium**", as that term is defined in Section 14.3 below, in connection with such Transfer, the name and address of the proposed Transferee, and a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, including all existing operative documents to be executed to evidence such Transfer or the agreements incidental or related to such Transfer, provided that Landlord shall have the right to require Tenant to utilize Landlord's standard Transfer documents in connection with the documentation of such Transfer and, (iv) current financial statements of the proposed Transferee certified by an officer, partner or owner thereof, business credit and personal references and history of the proposed Transferee and any other information reasonably required by Landlord which will enable Landlord to determine the financial responsibility, character, and reputation of the proposed Transferee, nature of such Transferee's business and proposed use of the Subject Space. Any Transfer made without Landlord's prior written consent shall, at Landlord's option, be null, void and of no effect, and shall, at Landlord's option, constitute a default by Tenant under this Lease.

14.2 **Landlord's Consent**. Landlord shall not unreasonably withhold or delay its consent to any proposed Transfer of the Subject Space to the Transferee on the terms specified in the Transfer Notice. Without limitation as to other reasonable grounds for withholding consent, the parties hereby agree that it shall be reasonable under this Lease and under any applicable law for Landlord to withhold consent to any proposed Transfer where one or more of the following apply:

14.2.1 The Transferee is of a character or reputation or engaged in a business which is not consistent with the quality of the Building or the Project;

14.2.2 The Transferee intends to use the Subject Space for purposes which are not permitted under this Lease;

14.2.3 The Transferee is either a governmental agency or instrumentality thereof or a non-profit organization;

14.2.4 Intentionally Omitted;

14.2.5 The Transferee compared to the then tenants in the Building leasing space similar to the Premises is not a party of reasonable financial worth and/or financial stability in light of the responsibilities to be undertaken in connection with the Transfer on the date consent is requested;

14.2.6 The proposed Transfer would cause a violation of another lease for space in the Project, or would give an occupant of the Project a right to cancel its lease; or

14.2.7 Either the proposed Transferee, or any person or entity which directly or indirectly, controls, is controlled by, or is under common control with, the proposed Transferee is actively negotiating with Landlord or has actively negotiated with Landlord during the four (4) month period immediately preceding the date Landlord receives the Transfer Notice, to lease space in the Project.

If Landlord consents to any Transfer pursuant to the terms of this Section 14.2 (and does not exercise any recapture rights Landlord may have under Section 14.4 of this Lease), Tenant may within six (6) months after Landlord's consent, but not later than the expiration of said six-month period, enter into such Transfer of the Premises or portion thereof, upon substantially the same terms and conditions as are set forth in the Transfer Notice furnished by Tenant to Landlord pursuant to Section 14.1 of this Lease, provided that if there are any changes in the terms and conditions from those specified in the Transfer Notice (i) such that Landlord would initially have been entitled to refuse its consent to such Transfer under this Section 14.2, or (ii) which would cause the proposed Transfer to be substantially more favorable to the Transferee than the terms set forth in Tenant's original Transfer Notice, Tenant shall again submit the Transfer to Landlord for its approval and other action under this Article 14 (including Landlord's right of recapture, if any, under Section 14.4 of this Lease).

14.3 **Transfer Premium**. If Landlord consents to a Transfer, as a condition thereto which the parties hereby agree is reasonable, Tenant shall pay to Landlord fifty percent (50%) of any "**Transfer Premium**," as that term is defined in this Section 14.3, received by Tenant from such Transferee after deducting the reasonable expenses incurred by Tenant for (i) any changes, alterations and improvements to the Premises in connection with the Transfer (including any tenant improvement allowances granted in connection with the Transfer), (ii) any free base rent or other economic concessions reasonably provided to the Transferee, (iii) any brokerage commissions in connection with the Transfer, (iv) other reasonable costs incurred by Tenant relating to the Transfer, and (v) reasonable attorneys' fees incurred in connection with the Transfer. "**Transfer Premium**" shall mean all rent, additional rent or other consideration payable by such Transferee in connection with the Transfer in excess of the Rent and Additional Rent payable by Tenant under this Lease during the term of the Transfer on a per rentable square foot basis if less than all of the Premises is transferred. "**Transfer Premium**" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by Transferee to Tenant in connection with such Transfer, and any payment in excess of fair market value for services rendered by Tenant to Transferee or for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to Transferee in connection with such Transfer. The determination of the amount of Landlord's applicable share of the Transfer Premium shall be made on a monthly basis as rent or other consideration is received by Tenant under the Transfer.

14.4 **Landlord's Option as to Subject Space**. Notwithstanding anything to the contrary contained in this Article 14, in the event Tenant contemplates a Transfer of all or a portion of the Premises, Tenant shall give Landlord notice (the "**Intention to Transfer Notice**") of such contemplated Transfer (whether or not the contemplated Transferee or the terms of such contemplated Transfer have been determined). The Intention to Transfer Notice shall specify the portion of and amount of rentable square feet of the Premises which Tenant intends to Transfer (the "**Contemplated Transfer Space**"), the contemplated date of commencement of the contemplated Transfer (the "**Contemplated Effective Date**"), and the contemplated length of the term of such contemplated Transfer, and shall specify that such Intention to Transfer Notice is delivered to Landlord pursuant to this Section 14.4 in order to allow Landlord to elect to recapture the Contemplated Transfer Space. Thereafter, Landlord shall have the option, by giving written notice to Tenant within thirty (30) days after receipt of any Intention to Transfer Notice ("Landlord's Termination Notice"), to recapture the Contemplated Transfer Space. Such recapture shall cancel and terminate this Lease with respect to such Contemplated Transfer Space as of the Contemplated Effective Date. In the event of a recapture by Landlord, if this Lease shall be canceled with respect to less than the entire Premises, the Rent reserved herein shall be prorated on the basis of the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the Premises, and this Lease as so amended shall continue thereafter in full force and effect, and upon request of either party, the parties shall execute written confirmation of the same. If Landlord declines, or fails to elect in a timely manner, to recapture such Contemplated Transfer Space under this Section 14.4, then, subject to the other terms of this Article 14, for a period of nine (9) months (the "**Nine Month Period**") commencing on the last day of such thirty (30) day period, Landlord shall not have any right to recapture the Contemplated Transfer Space with respect to any Transfer made during the Nine Month Period, provided that any such Transfer is substantially on the terms set forth in the Intention to Transfer Notice, and provided further that any such Transfer shall be subject to the remaining terms of this Article 14. If such a Transfer is not so consummated within the Nine Month Period (or if a Transfer is so consummated, then upon the expiration of the term of any Transfer of such Contemplated Transfer Space consummated within such Nine Month Period), Tenant shall again be required to submit a new Intention to Transfer Notice to Landlord with respect any contemplated Transfer, as provided above in this Section 14.4. Notwithstanding the foregoing, in the event Landlord elects to recapture the Premises pursuant to the provisions of this Section 14.4, Tenant shall have the right to rescind its Intention to Transfer Notice by providing written notice thereof to Landlord within five (5) business days of receipt of the Landlord's Termination Notice, in which case Landlord's right to recapture shall be null and void.

14.5 **Effect of Transfer**. If Landlord consents to a Transfer, (i) the terms and conditions of this Lease shall in no way be deemed to have been waived or modified, (ii) such consent shall not be deemed consent to any further Transfer by either Tenant or a Transferee, (iii) Tenant shall deliver to Landlord, promptly after execution, an original executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, (iv) Tenant shall furnish upon Landlord's request a complete statement, certified by an independent certified public accountant, or Tenant's chief financial officer, setting forth in detail the computation of any Transfer Premium Tenant has derived and shall derive from such Transfer, and (v) no Transfer relating to this Lease or agreement entered into with respect thereto, whether with or without Landlord's consent, shall relieve Tenant or any guarantor of the Lease from any liability under this Lease, including, without limitation, in connection with the Subject Space. In the event that Tenant subleases all or any portion of the Premises in accordance with the terms of this Article 14, Tenant shall cause such subtenant to carry and maintain the same insurance coverage terms and limits as are required of Tenant, in accordance with the terms of Article 10 of this Lease. Landlord or its authorized representatives shall have the right at all reasonable times to audit the books, records and papers of Tenant relating to any Transfer, and shall have the right to make copies thereof. If the Transfer Premium respecting any Transfer shall be found understated, Tenant shall, within thirty (30) days after demand, pay the deficiency, and if understated by more than two percent (2%), Tenant shall pay Landlord's costs of such audit.

14.6 **Additional Transfers**. For purposes of this Lease, the term "**Transfer**" shall also include (i) if Tenant is a partnership, the withdrawal or change, voluntary, involuntary or by operation of law, of fifty percent (50%) or more of the partners, or transfer of fifty percent (50%) or more of partnership interests, within a twelve (12)-month period, or the dissolution of the partnership without immediate reconstitution thereof, and (ii) if Tenant is a closely held corporation (*i.e.*, whose stock is not publicly held and not traded through an exchange or over the counter), (A) the dissolution, merger, consolidation or other reorganization of Tenant or (B) the sale or other transfer of an aggregate of fifty percent (50%) or more of the voting shares of Tenant (other than to immediate family members by reason of gift or death), within a twelve (12)-month period, or (C) the sale, mortgage, hypothecation or pledge of an aggregate of fifty percent (50%) or more of the value of the unencumbered assets of Tenant within a twelve (12)-month period.

14.7 **Occurrence of Default**. Any Transfer hereunder shall be subordinate and subject to the provisions of this Lease, and if this Lease shall be terminated during the term of any Transfer, Landlord shall have the right to: (i) treat such Transfer as cancelled and repossess the Subject Space by any lawful means, or (ii) require that such Transferee attorn to and recognize Landlord as its landlord under any such Transfer. If Tenant shall be in default under this Lease (after written notice and expiration of any applicable cure period), Landlord is hereby irrevocably authorized, as Tenant's agent and attorney-in-fact, to direct any Transferee to make all payments under or in connection with the Transfer directly to Landlord (which Landlord shall apply towards Tenant's obligations under this Lease) until such default is cured. Such Transferee shall rely on any representation by Landlord that Tenant is in default hereunder, without any need for confirmation thereof by Tenant. Upon any assignment, the assignee shall assume in writing all obligations and covenants of Tenant thereafter to be performed or observed under this Lease. No collection or acceptance of rent by Landlord from any Transferee shall be deemed a waiver of any provision of this Article 14 or the approval of any Transferee or a release of Tenant from any obligation under this Lease, whether theretofore or thereafter accruing. In no event shall Landlord's enforcement of any provision of this Lease against any Transferee be deemed a waiver of Landlord's right to enforce any term of this Lease against Tenant or any other person. If Tenant's obligations hereunder have been guaranteed, Landlord's consent to any Transfer shall not be effective unless the guarantor also consents to such Transfer.

14.8 **Permitted Transfer**. Notwithstanding the provisions of this Article 14 to the contrary, no consent from Landlord shall be required for the Transfers under the following circumstances, which shall be considered a "**Permitted Transfers**" and each Transferee a "**Permitted Transferee**": (i) a Transfer to a wholly-owned subsidiary of Tenant; or (ii) a Transfer resulting from a merger, consolidation or other reorganization of Tenant. Furthermore, no transfer of shares of stock in Tenant shall be considered a Transfer hereunder so long as Tenant remains a corporation whose stock is traded on a nationally recognized stock exchange.

ARTICLE 15

SURRENDER OF PREMISES; OWNERSHIP AND REMOVAL OF TRADE FIXTURES

15.1 **Surrender of Premises**. No act or thing done by Landlord or any agent or employee of Landlord during the Lease Term shall be deemed to constitute an acceptance by Landlord of a surrender of the Premises unless such intent is specifically acknowledged in writing by Landlord. The delivery of keys to the Premises to Landlord or any agent or employee of Landlord shall not constitute a surrender of the Premises or effect a termination of this Lease, whether or not the keys are thereafter retained by Landlord. The voluntary or other surrender of this Lease by Tenant, whether accepted by Landlord or not, or a mutual termination hereof, shall not work a merger, and at the option of Landlord shall operate as an assignment to Landlord of all subleases or subtenancies affecting the Premises or terminate any or all such sublessees or subtenancies.

15.2 **Removal of Tenant Property by Tenant**. Upon the expiration of the Lease Term, or upon any earlier termination of this Lease, Tenant shall, subject to the provisions of this Article 15, quit and surrender possession of the Premises to Landlord in as good order and condition as when Tenant took possession and as thereafter improved by Landlord and/or Tenant, reasonable wear and tear and repairs which are specifically made the responsibility of Landlord hereunder excepted. Upon such expiration or termination, Tenant shall, leave in place all telephone, data and other cabling and wiring installed or caused to be installed by Tenant (including any cabling and wiring, installed above the ceiling of the Premises or below the floor of the Premises) but shall remove all debris and rubbish, and such items of furniture, equipment, business and trade fixtures, free-standing cabinet work, movable partitions and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises, and such similar articles of any other persons claiming under Tenant, as Landlord may, in its sole discretion, require to be removed, and Tenant shall repair at its own expense all damage to the Premises and Building resulting from such removal.

ARTICLE 16

HOLDING OVER

If Tenant holds over after the expiration of the Lease Term or earlier termination thereof, such tenancy shall be a tenancy-at-sufferance, and shall not constitute a renewal hereof or an extension for any further term, and in such case monthly Base Rent shall be one hundred fifty percent (150%) of the then current monthly Base Rent, plus the other amounts of Rent as specified herein. Nothing contained in this Article 16 shall be construed as consent by Landlord to any holding over by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in this Lease upon the expiration or other termination of this Lease. If Tenant holds over without Landlord's express written consent, and tenders payment of rent for any period beyond the expiration of the Lease Term by way of check (whether directly to Landlord, its agents, or to a lock box) or wire transfer, Tenant acknowledges and agrees that the cashing of such check or acceptance of such wire shall be considered inadvertent and not be construed as creating a month-to-month tenancy, provided Landlord refunds such payment to Tenant promptly upon learning that such check has been cashed or wire transfer received. The provisions of this Article 16 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Landlord provided herein or at law. If Tenant fails to surrender the Premises upon the termination or expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender and any lost rents to Landlord resulting therefrom. Tenant agrees that any proceedings necessary to recover possession of the Premises, whether before or after expiration of the Lease Term, shall be considered an action to enforce the terms of this Lease for purposes of the awarding of any attorney's fees in connection therewith.

ARTICLE 17

ESTOPPEL CERTIFICATES

Within fifteen (15) business days following a request in writing by Landlord, Tenant shall execute, acknowledge and deliver to Landlord an estoppel certificate, which, as submitted by Landlord, shall be substantially in the form of **Exhibit E**, attached hereto (or such other form as may be required by any prospective mortgagee or purchaser of the Project, or any portion thereof), indicating therein any exceptions thereto that may exist at that time, and shall also contain any other information reasonably requested by Landlord or Landlord's mortgagee or prospective mortgagee. Any such certificate may be relied upon by any prospective mortgagee or purchaser of all or any portion of the Project. Tenant shall execute and deliver whatever other instruments may be reasonably required for such purposes. At any time during the Lease Term, in the event that Tenant's financial information is not available on the Internet, Landlord may require Tenant to provide Landlord with a current financial statement and financial statements of the two (2) years prior to the current financial statement year. Such statements shall be prepared in accordance with generally accepted accounting principles if such is the normal practice of Tenant, and shall be audited by an independent certified public accountant. Failure of Tenant to timely execute, acknowledge and deliver such estoppel certificate or other instruments shall constitute an acceptance of the Premises and an acknowledgment by Tenant that statements included in the estoppel certificate are true and correct, without exception.

ARTICLE 18

SUBORDINATION

This Lease shall be subject and subordinate to all present and future ground or underlying leases of the Building or Project and to the lien of any mortgage, trust deed or other encumbrances now or hereafter in force against the Building or Project or any part thereof, if any, and to all renewals, extensions, modifications, consolidations and replacements thereof, and to all advances made or hereafter to be made upon the security of such mortgages or trust deeds; provided, however, that any subordination to a future mortgagee is conditioned upon the mortgagee agreeing that Tenant's possession of the Premises and its rights under this Lease will not be disturbed and executing a non-disturbance and attornment agreement in a commercially reasonable form acceptable to both parties, or unless the holders of such mortgages, trust deeds or other encumbrances, or the lessors under such ground lease or underlying leases, require in writing that this Lease be superior thereto. Tenant covenants and agrees in the event any proceedings are brought for the foreclosure of any such mortgage or deed in lieu thereof (or if any ground lease is terminated), to attorn, without any deductions or set-offs whatsoever (except for those specifically provided in the Lease), to the lienholder or purchaser or any successors thereto upon any such foreclosure sale or deed in lieu thereof (or to the ground lessor), if so requested to do so by such purchaser or lienholder or ground lessor, and to recognize such purchaser or lienholder or ground lessor as the lessor under this Lease, provided such lienholder or purchaser or ground lessor shall agree for a lienholder, on such lienholder's then standard form Subordination and Non-Disturbance Agreement to accept this Lease as a direct lease with Tenant and not disturb Tenant's occupancy, so long as Tenant is not in default under the lease after written notice and expiration of any applicable cure period. Landlord's interest herein may be assigned as security at any time to any lienholder. Tenant shall, within fifteen (15) business days of request by Landlord, execute such further instruments or assurances as Landlord may reasonably deem necessary to evidence or confirm the subordination or superiority of this Lease to any such mortgages, trust deeds, ground leases or underlying leases. Tenant waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of the Tenant hereunder in the event of any foreclosure proceeding or sale. Landlord agrees to use commercially reasonable efforts to obtain a Subordination and Non-Disturbance Agreement from its current mortgagee(s), ground lessor(s) and lien holder(s) and deliver same to Tenant within thirty (30) days from the date hereof and from any future mortgagee that requires Tenant to subordinate its lease rights to such future lender's mortgage and other liens and security interests.

ARTICLE 19

DEFAULTS; REMEDIES

19.1 **Events of Default**. The occurrence of any of the following shall constitute a default of this Lease by Tenant:

19.1.1 Any failure by Tenant to pay any Rent or any other charge required to be paid under this Lease, or any part thereof; or

19.1.2 Any failure by Tenant to observe or perform any other material provision, covenant or condition of this Lease to be observed or performed by Tenant; or

19.1.3 Abandonment of all or a substantial portion of the Premises by Tenant; or

19.1.4 The failure by Tenant to observe or perform according to the provisions of Articles 5 (Use of Premises), 14 (Assignment and Subletting), 17 (Estoppel Certificate) or 18 (Subordination) of this Lease; or

19.1.5 Tenant's failure to occupy the Premises within ten (10) business days after the Lease Commencement Date, subject to the provisions of Section 29.16.

Following the occurrence of a default by Tenant, Landlord may give Tenant, and any subtenant, a notice specifying the nature of the default and the provisions of this Lease breached and demanding that Tenant, and any subtenant, fully cure each such default within the time period specified below and such notice may include an election by Landlord for Tenant, and any subtenant, to quit the Premises and surrender the same to Landlord if a timely cure is not effectuated: (i) for nonpayment of any amount of regularly recurring Rent, five (5) business days; and (ii) for other defaults, fifteen (15) days; provided, however, that if any such non-monetary default cannot reasonably be cured within said time period, Tenant shall be deemed to have cured such default if Tenant commences cure of the default within said time period, and thereafter diligently and in good faith continues with and actually completes said cure. Failure by Tenant to cure a default within the time periods specified above will constitute an Event of Default.

To the extend allowed by California Law, any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161 or any similar or successor law.

19.2 **Remedies Upon an Event of Default**. Upon the occurrence of any Event of Default by Tenant, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (all of which remedies shall be distinct, separate and cumulative), the option to pursue any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever.

19.2.1 Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, and pursuant to legal process, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(i) The worth at the time of award of the unpaid rent which has been earned at the time of such termination; plus

(ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, specifically including but not limited to, brokerage commissions and advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant; and

(v) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

Notwithstanding anything to the contrary set forth herein, in no event will Tenant be liable for general, indirect or consequential damages (including lost profits or diminution in value of the Project).

The term "**rent**" as used in this Section 19.2 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Sections 19.2.1(i) and (ii), above, the "worth at the time of award" shall be computed by allowing interest at the rate set forth in Article 25 of this Lease, but in no case greater than the maximum amount of such interest permitted by law. As used in Section 19.2.1(iii) above, the "**worth at the time of award**" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus three percent (3%).

19.2.2 Landlord shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of an Event of Default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all Rent as it becomes due.

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, above, or any law or other provision of this Lease), without prior demand or notice except as required by applicable law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.3 **Subleases of Tenant**. Whether or not Landlord elects to terminate this Lease on account of any Event of Default by Tenant, as set forth in this Article 19, Landlord shall have the right to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Premises or may, in Landlord's sole discretion, succeed to Tenant's interest in such subleases, licenses, concessions or arrangements. In the event of Landlord's election to succeed to Tenant's interest in any such subleases, licenses, concessions or arrangements, Tenant shall, as of the date of notice by Landlord of such election, have no further right to or interest in the rent or other consideration receivable thereunder.

19.4 **Efforts to Relet**. No re-entry or repossession, repairs, maintenance, changes, alterations and additions, reletting, appointment of a receiver to protect Landlord's interests hereunder, or any other action or omission by Landlord shall be construed as an election by Landlord to terminate this Lease or Tenant's right to possession, or to accept a surrender of the Premises, nor shall same operate to release Tenant in whole or in part from any of Tenant's obligations hereunder, unless express written notice of such intention is sent by Landlord to Tenant.

ARTICLE 20

COVENANT OF QUIET ENJOYMENT

Landlord covenants and agrees provided that Tenant is not in default hereunder following applicable written notice expiration of any applicable cure period, Tenant shall, during the Lease Term, peaceably and quietly have, hold and enjoy the Premises subject to the terms, covenants, conditions, provisions and agreements hereof without interference by any persons lawfully claiming by or through Landlord. The foregoing covenant is in lieu of any other covenant express or implied.

ARTICLE 21

SECURITY DEPOSIT

Intentionally Omitted.

ARTICLE 22

SUBSTITUTION OF OTHER PREMISES

Intentionally Omitted.

ARTICLE 23

SIGNS

23.1 **Full Floors**. Subject to the provisions of **Exhibit F** and to Landlord's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed, and provided all signs are in keeping with the quality, design and style of the Building and Project, Tenant, if the Premises comprise an entire floor of the Building, at its sole cost and expense, may install identification signage anywhere in the Premises including in the elevator lobby of the Premises, provided that such signs must not be visible from the exterior of the Building.

23.2 **Multi-Tenant Floors**. If other tenants occupy space on the floor on which the Premises is located, Tenant's identifying signage, at Tenant's cost, shall be comparable to that used by other tenants for other similar floors in the Building and shall comply with Landlord's then-current Building standard signage program.

23.3 **Prohibited Signage and Other Items**. Any signs, notices, logos, pictures, names or advertisements which are installed and that have not been separately approved by Landlord may be removed upon ten (10) days written notice from Landlord at the sole expense of Tenant. Subject to the provisions of **Exhibit F**, Tenant may not install any signs on the exterior or roof of the Project or the Common Areas. Any signs, window coverings, or blinds (even if the same are located behind the Landlord-approved window coverings for the Building), or other items visible from the exterior of the Premises or Building, shall be subject to the prior approval of Landlord, in its reasonable discretion. Landlord and Tenant agree that Tenant's sign package attached to **Exhibit G** has been approved by Landlord and it is in compliance with Landlord's requirements set forth in Sections 23.1 and 23.2.

ARTICLE 24

COMPLIANCE WITH LAW

Tenant shall not do anything or suffer anything to be done in or about the Premises or the Project which will in any way conflict with any law, statute, ordinance or other governmental rule, regulation or requirement now in force or which may hereafter be enacted or promulgated. Subject to Landlord's maintenance and repair obligations set forth herein, at its sole cost and expense, Tenant shall promptly comply with all such governmental measures. Should any standard or regulation now or hereafter be imposed on Landlord or Tenant by a state, federal or local governmental body charged with the establishment, regulation and enforcement of occupational, health or safety standards for employers, employees, landlords or tenants, then Tenant agrees, at its sole cost and expense, to comply promptly with such standards or regulations. Tenant shall be responsible, at its sole cost and expense, to make all alterations to the Premises as are required to comply with the governmental rules, regulations, requirements or standards described in this Article 24 that result from Tenant's specific use of the Premises. The judgment of any court of competent jurisdiction or the admission of Tenant in any judicial action, regardless of whether Landlord is a party thereto, that Tenant has violated any of said governmental measures, shall be conclusive of that fact as between Landlord and Tenant. Notwithstanding the above provisions, if any Alterations or improvements to the Premises are required by the adoption or enforcement of any law, statute, ordinance or other governmental rule, regulation or requirement relating to general office use as opposed to any other specific use by Tenant, then Landlord shall be responsible for completing the alteration or improvement, and the cost thereof will be allocated as follows: Landlord shall initially pay the cost thereof, and Tenant shall reimburse Landlord on a monthly basis for 1/144th of the cost thereof per month throughout the remainder of the Lease Term.

For purposes of Section 1938 of the California Civil Code, Landlord hereby discloses to Tenant, and Tenant hereby acknowledges, that the Premises have not undergone inspection by a Certified Access Specialist (CASp).

ARTICLE 25

LATE CHARGES

If any installment of Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within five (5) business days after Tenant's receipt of written notice from Landlord that said amount is due, then Tenant shall pay to Landlord a late charge equal to three percent (3%) of the overdue amount. The late charge shall be deemed Additional Rent and the right to require it shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner.

ARTICLE 26

LANDLORD'S RIGHT TO CURE DEFAULT; PAYMENTS BY TENANT

26.1 **Landlord's Cure**. All covenants and agreements to be kept or performed by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any reduction of Rent, except to the extent, if any, otherwise expressly provided herein. If Tenant shall be in default under this Lease (after written notice and expiration of any applicable cure period), then Landlord may upon an additional ten (10) days written notice to Tenant, but shall not be obligated to, make any such payment or perform any such act on Tenant's part without waiving its rights based upon any default of Tenant and without releasing Tenant from any obligations hereunder.

26.2 **Tenant's Reimbursement**. Except as may be specifically provided to the contrary in this Lease, Tenant shall pay to Landlord, within thirty (30) of delivery by Landlord to Tenant of statements therefor, sums equal to expenditures reasonably made and obligations incurred by Landlord in connection with the remedying by Landlord of Tenant's defaults pursuant to the provisions of Section 26.1. Tenant's obligations under this Section 26.2 shall survive the expiration or sooner termination of the Lease Term.

ARTICLE 27

ENTRY BY LANDLORD

Landlord reserves the right at all reasonable times and upon reasonable notice to Tenant (except in the case of an emergency) to enter the Premises to (i) inspect them; (ii) show the Premises to prospective purchasers, or to current or prospective mortgagees, ground or underlying lessors or insurers or, during the last eighteen (18) months of the Lease Term, to prospective tenants; (iii) post notices of nonresponsibility; or (iv) alter, improve or repair the Premises or the Building, or for structural alterations, repairs or improvements to the Building or the Building's systems and equipment. Notwithstanding anything to the contrary contained in this Article 27, Landlord may enter the Premises at all reasonable times and upon reasonable notice to (A) perform services required of Landlord, including janitorial service; or (B) perform any covenants of Tenant which Tenant fails to perform in the manner set forth herein. Landlord may make any such entries without the abatement of Rent, except as otherwise provided in this Lease, and may take such reasonable steps as required to accomplish the stated purposes. Except as arises from the negligence or willful misconduct of Landlord or the Landlord Parties, Tenant hereby waives any claims for damages or for any injuries or inconvenience to or interference with Tenant's business, lost profits, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby arising from Landlord's entry upon or occupancy of the Premises. For each of the above purposes, Landlord shall at all times have a key with which to unlock all the doors in the Premises, excluding Tenant's vaults, safes and special security areas designated in advance by Tenant. In an emergency, Landlord shall have the right to use any means that Landlord may deem proper to open the doors in and to the Premises. Any entry into the Premises by Landlord in the manner hereinbefore described shall not be deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an actual or constructive eviction of Tenant from any portion of the Premises. No provision of this Lease shall be construed as obligating Landlord to perform any repairs, alterations or decorations except as otherwise expressly agreed to be performed by Landlord herein.

ARTICLE 28

TENANT PARKING

Tenant shall be entitled to rent from Landlord, commencing on the Lease Commencement Date, the amount of parking passes set forth in Section 9 of the Summary, on a monthly basis throughout the Lease Term, which parking passes shall pertain to the Project parking facility. The exact location of the parking spaces, if any, shall be designated by Landlord within a reasonable distance from the Building. Tenant shall pay to Landlord for automobile parking passes on a monthly basis the rates set forth in Section 9. In addition, Tenant shall be responsible for the full amount of any taxes imposed by any governmental authority in connection with the renting of such parking passes by Tenant or the use of the parking facility by Tenant. Tenant's continued right to use the parking passes is conditioned upon Tenant not being in default under the Lease after written notice and expiration of any applicable cure period. Tenant shall abide by all reasonable rules and regulations which are prescribed from time to time and enforced by Landlord in a consistent, non-arbitrary manner for the orderly operation and use of the parking facility where the parking passes are located (including any sticker or other identification system established by Landlord and the prohibition of vehicle repair and maintenance activities in the Project's parking facilities). Tenant shall see that Tenant's employees and visitors also comply with such rules and regulations. Tenant's use of the Project parking facility shall be at Tenant's sole risk and Tenant acknowledges and agrees that Landlord shall have no liability whatsoever for damage to the vehicles of Tenant, its employees and/or visitors, or for other personal injury or property damage or theft relating to or connected with the parking rights granted herein or any of Tenant's, its employees' and/or visitors' use of the parking facilities, except for damage, loss, or injury caused by the negligence or willful misconduct of Landlord or the Landlord Parties. Tenant's rights hereunder are subject to the terms of any Underlying Documents. Landlord specifically reserves the right to change the size, configuration, design, layout and all other aspects of the Project parking facility at any time and Tenant acknowledges and agrees that Landlord may, without incurring any liability to Tenant and without any abatement of Rent under this Lease, from time to time, temporarily close-off or restrict access to the Project parking facility for purposes of permitting or facilitating any such construction, alteration or improvements; provided, however, if the foregoing has a material adverse effect upon the access, parking or Tenant’s ability to conduct its business from the Premises, then the prior written consent of Tenant is required, which consent shall not be unreasonably withheld, conditioned or delayed. Landlord may delegate its responsibilities hereunder to a parking operator in which case such parking operator shall have all the rights of control attributed hereby to the Landlord. The parking passes rented by Tenant pursuant to this Article 28 are provided to Tenant solely for use by Tenant's own personnel and such passes may not be transferred, assigned, subleased or otherwise alienated by Tenant without Landlord's prior approval. Tenant may validate visitor parking by such method or methods as the Landlord may establish, at the validation rate from time to time generally applicable to visitor parking. Landlord may set parking garage hours as it reasonably sees fit that do not conflict with the Building Hours. Tenant may have twenty-nine (29) of its allotted parking passes as set forth in Section 9 of the Summary be reserved parking in the parking structure at the reserved parking rate, and may convert another twenty percent (20%) of its allotted parking passes to tandem parking where designated by Landlord in the parking structure. Following execution of this Lease, Landlord and Tenant shall cooperate to prepare a parking plan designating the applicable reserved and unreserved spaces. The rates for the non-reserved, reserved and tandem parking passes are set forth in Section 9 of the Summary.

ARTICLE 29

MISCELLANEOUS PROVISIONS

29.1 **Terms; Captions**. The words "**Landlord**" and "**Tenant**" as used herein shall include the plural as well as the singular. The necessary grammatical changes required to make the provisions hereof apply either to corporations or partnerships or individuals, men or women, as the case may require, shall in all cases be assumed as though in each case fully expressed. The captions of Articles and Sections are for convenience only and shall not be deemed to limit, construe, affect or alter the meaning of such Articles and Sections.

29.2 **Binding Effect**. Subject to all other provisions of this Lease, each of the covenants, conditions and provisions of this Lease shall extend to and shall, as the case may require, bind or inure to the benefit not only of Landlord and of Tenant, but also of their respective heirs, personal representatives, successors or assigns, provided this clause shall not permit any assignment by Tenant contrary to the provisions of Article 14 of this Lease.

29.3 **No Air Rights**. No rights to any view or to light or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease. If at any time any windows of the Premises are temporarily darkened or the light or view therefrom is obstructed by reason of any repairs, improvements, maintenance or cleaning in or about the Project, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease.

29.4 **Modification of Lease**. Should any current or prospective mortgagee or ground lessor for the Building or Project require a modification of this Lease, which modification will not cause an increased cost or expense to Tenant or in any other way materially and adversely change the rights and obligations of Tenant hereunder, then and in such event, Tenant agrees that this Lease may be so modified and agrees to execute whatever documents are reasonably satisfactory to Tenant, acting reasonably, and to deliver the same to Landlord within ten (10) business days following a request therefor. At the request of Landlord or any mortgagee or ground lessor, Tenant agrees to execute a short form of Lease and deliver the same to Landlord within ten (10) business days following the request therefor.

29.5 **Transfer of Landlord's Interest**. Tenant acknowledges that Landlord has the right to transfer all or any portion of its interest in the Project or Building and in this Lease, and Tenant agrees that in the event of any such transfer, Landlord shall automatically be released from all liability under this Lease (except for liabilities arising before the transfer which are not expressly assumed by the transferee and any indemnification obligations of Landlord arising from occurrences prior to the transfer) and Tenant agrees to look solely to such transferee for the performance of Landlord's obligations hereunder after the date of transfer and such transferee shall be deemed to have fully assumed and be liable for all obligations of this Lease to be performed by Landlord, including the return of any Security Deposit, and Tenant shall attorn to such transferee provided that the transferee agrees to recognize this Lease as a direct lease with Tenant.

29.6 **Prohibition Against Recording**. Except as provided in Section 29.4 of this Lease, neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by anyone acting through, under or on behalf of Tenant.

29.7 **Landlord's Title**. Landlord's title is and always shall be paramount to the title of Tenant. Nothing herein contained shall empower Tenant to do any act which can, shall or may encumber the title of Landlord.

29.8 **Relationship of Parties**. Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venturer or any association between Landlord and Tenant.

29.9 **Application of Payments**. Landlord shall have the right to apply payments received from Tenant pursuant to this Lease, regardless of Tenant's designation of such payments, to satisfy any obligations of Tenant hereunder, in such order and amounts as Landlord, in its sole discretion, may elect.

29.10 **Time of Essence**. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

29.11 **Partial Invalidity**. If any term, provision or condition contained in this Lease shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, provision or condition to persons or circumstances other than those with respect to which it is invalid or unenforceable, shall not be affected thereby, and each and every other term, provision and condition of this Lease shall be valid and enforceable to the fullest extent possible permitted by law.

29.12 **No Warranty**. In executing and delivering this Lease, Tenant has not relied on any representations, including, but not limited to, any representation as to the amount of any item comprising Additional Rent or the amount of the Additional Rent in the aggregate or that Landlord is furnishing the same services to other tenants, at all, on the same level or on the same basis, or any warranty or any statement of Landlord which is not set forth herein or in one or more of the exhibits attached hereto.

29.13 **Landlord Exculpation**. The liability of Landlord or the Landlord Parties to Tenant for any default by Landlord under this Lease or arising in connection herewith or with Landlord's operation, management, leasing, repair, renovation, alteration or any other matter relating to the Project or the Premises shall be limited solely and exclusively to Landlord's interest in the Project and its rents, issues and profits, proceeds of sale and condemnation and insurance recoveries. None of the Landlord Parties shall have any personal liability therefor, and Tenant hereby expressly waives and releases such personal liability on behalf of itself. The limitations of liability contained in this Section 29.13 shall inure to the benefit of Landlord's and the Landlord Parties' present and future partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any present or future partner of Landlord (if Landlord is a partnership), or trustee or beneficiary (if Landlord or any partner of Landlord is a trust), have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor Tenant shall be liable for general, indirect or consequential damages (including lost profits or diminution in value of the Project).

29.14 **Entire Agreement**. It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease constitutes the parties' entire agreement with respect to the leasing of the Premises and supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. None of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in writing signed by the parties hereto.

29.15 **Right to Lease**. Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in the exercise of its sole business judgment shall determine to best promote the interests of the Building or Project. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or type or number of tenants shall, during the Lease Term, occupy any space in the Building or Project.

29.16 **Force Majeure**. Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, acts of war, terrorist acts, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease (collectively, a "**Force Majeure**"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance caused by a Force Majeure.

29.17 **Waiver of Redemption by Tenant** . Tenant hereby waives, for Tenant and for all those claiming under Tenant, any and all rights now or hereafter existing to redeem by order or judgment of any court or by any legal process or writ, Tenant's right of occupancy of the Premises after any termination of this Lease.

29.18 **Notices**. All notices, demands, statements, designations, approvals or other communications (collectively, "**Notices**") given or required to be given by either party to the other hereunder or by law shall be in writing, shall be (A) sent by United States certified or registered mail, postage prepaid, return receipt requested ("**Mail**"), (B) delivered by a nationally recognized overnight courier, or (C) delivered personally. Any Notice shall be sent, transmitted, or delivered, as the case may be, to Tenant at the appropriate address set forth in Section 10 of the Summary, or to such other place as Tenant may from time to time designate in a Notice to Landlord, or to Landlord at the addresses set forth below, or to such other places as Landlord may from time to time designate in a Notice to Tenant. Any Notice will be deemed given (i) three (3) days after the date it is posted if sent by Mail, (ii) the date the overnight courier delivery is made, or (iii) the date personal delivery is made. As of the date of this Lease, any Notices to Landlord must be sent, transmitted, or delivered, as the case may be, to the following addresses:

: Onni Manhattan Towers LP
300-550 Robson Street, B.C V6B 2B7
CANADA
legal@onni.com
and
Onni Manhattan Towers LP
315 W 9th Street, Unit 801
Los Angeles, CA, USA 90015

29.19 **Joint and Several**. If there is more than one Tenant, the obligations imposed upon Tenant under this Lease shall be joint and several.

29.20 **Authority**. If Tenant is a corporation, trust or partnership, each individual executing this Lease on behalf of Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Lease and that each person signing on behalf of Tenant is authorized to do so. Each individual executing this Lease on behalf of Landlord hereby represents and warrants that Landlord is a duly formed and existing entity qualified to do business in California and that Landlord has full right and authority to execute and deliver this Lease and that each person signing on behalf of Landlord is authorized to do so.

29.21 **Attorneys' Fees**. In the event that either Landlord or Tenant should bring suit for the possession of the Premises, for the recovery of any sum due under this Lease, or because of the breach of any provision of this Lease or for any other relief against the other, then all costs and expenses, including reasonable attorneys' fees, incurred by each party therein shall be paid by each respective party.

29.22 **Governing Law; WAIVER OF TRIAL BY JURY** . This Lease shall be construed and enforced in accordance with the laws of the State of California. IN ANY ACTION OR PROCEEDING ARISING HEREFROM, LANDLORD AND TENANT HEREBY CONSENT TO (I) THE JURISDICTION OF ANY COMPETENT COURT WITHIN THE STATE OF CALIFORNIA, (II) SERVICE OF PROCESS BY ANY MEANS AUTHORIZED BY CALIFORNIA LAW. AND (III) TO THE EXTENT PERMITTED BY APPLICABLE LAW, IN THE INTEREST OF SAVING TIME AND EXPENSE, TRIAL WITHOUT A JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER OR THEIR SUCCESSORS IN RESPECT OF ANY MATTER ARISING OUT OF OR IN

CONNECTION WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR DAMAGE, OR ANY EMERGENCY OR STATUTORY REMEDY. IN THE EVENT LANDLORD COMMENCES ANY SUMMARY PROCEEDINGS OR ACTION FOR NONPAYMENT OF BASE RENT OR ADDITIONAL RENT, TENANT SHALL NOT INTERPOSE ANY COUNTERCLAIM OF ANY NATURE OR DESCRIPTION (UNLESS SUCH COUNTERCLAIM SHALL BE MANDATORY) IN ANY SUCH PROCEEDING OR ACTION, BUT SHALL BE RELEGATED TO AN INDEPENDENT ACTION AT LAW.

29.23 **Submission of Lease**. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of, option for or option to lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

29.24 **Brokers**. Landlord and Tenant hereby warrant to each other that they have had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, excepting only the real estate brokers or agents specified in Section 14 of the Summary (the "**Brokers**"), and that they know of no other real estate broker or agent who is entitled to a commission in connection with this Lease. Landlord will pay the Brokers' compensation in connection with this Lease pursuant to a separate agreement. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, costs and expenses (including without limitation reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing on account of any dealings with any real estate broker or agent, other than the Brokers, occurring by, through, or under the indemnifying party. The terms of this Section 29.24 shall survive the expiration or earlier termination of the Lease Term.

29.25 **Independent Covenants**. This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent and Tenant hereby expressly waives the benefit of any statute to the contrary and agrees that if Landlord fails to perform its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to any setoff of the Rent or other amounts owing hereunder against Landlord.

29.26 **Project or Building Name and Signage**. Landlord shall have the right at any time to change the name of the Project or Building and to install, affix and maintain any and all signs on the exterior and on the interior of the Project or Building as Landlord may, in Landlord's sole discretion, desire so long as any change, installation and maintenance does not interfere with Tenant's signage. Tenant shall not use the name of the Project or Building or use pictures or illustrations of the Project or Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises, without the prior written consent of Landlord, which consent shall not be unreasonably withheld, delayed or conditioned.

29.27 **Counterparts**. This Lease may be executed in counterparts with the same effect as if both parties hereto had executed the same document. Both counterparts shall be construed together and shall constitute a single lease.

29.28 **Confidentiality**. Intentionally Omitted.

29.29 **Building Renovations**. It is specifically understood and agreed that Landlord has no obligation and has made no promises to alter, remodel, improve, renovate, repair or decorate the Premises, Building, or any part thereof and that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant except as specifically set forth herein or in the Tenant Work Letter. However, Tenant hereby acknowledges that Landlord is currently renovating or may during the Lease Term renovate, improve, alter, or modify (collectively, the "**Renovations**") the Project, the Building and/or the Premises. Provided that such Renovations do not result in a material and adverse effect upon Tenant's access to or use of the Premises, Tenant hereby agrees that such Renovations shall in no way constitute a constructive eviction of Tenant nor entitle Tenant to any abatement of Rent. Except as provided in this Lease, Landlord shall have no responsibility and shall not be liable to Tenant for any injury to or interference with Tenant's business arising from the Renovations, nor shall Tenant be entitled to any compensation or damages from Landlord for loss of the use of the whole or any part of the Premises or of Tenant's personal property or improvements resulting from the Renovations, or for any inconvenience or annoyance occasioned by such Renovations, except for interference, damage or loss caused by the negligence of will misconduct of Landlord or Landlord's agents). Notwithstanding the above provisions, in the event that Tenant's access to, use, occupancy, or quiet enjoyment of the Premise s are materially and adversely affected by Landlord's Renovations, then Tenant's Rent hereunder shall be equitably abated in proportion to the loss of utilization of the Premises.

29.30 **No Violation**. Tenant hereby warrants and represents that neither its execution of nor performance under this Lease shall cause Tenant to be in violation of any agreement, instrument, contract, law, rule or regulation by which Tenant is bound, and Tenant shall protect, defend, indemnify and hold Landlord harmless against any claims, demands, losses, damages, liabilities, costs and expenses, including, without limitation, reasonable attorneys' fees and costs, arising from Tenant's breach of this warranty and representation pursuant to the provisions of Section 10.1.1.

29.31 **Communications and Computer Lines**. Tenant may install, maintain, replace, remove or use any communications or computer wires and cables serving the Premises (collectively, the "**Lines**"), provided that after completion of Tenant's Work, (i) Tenant shall obtain Landlord's prior written consent (which shall not be unreasonably withheld, conditioned or delayed), use an experienced and qualified contractor approved in writing by Landlord, and comply with all of the other provisions of Articles 7 and 8 of this Lease, (ii) an acceptable number of spare Lines and space for additional Lines shall be maintained for existing and future occupants of the Project, as determined in Landlord's reasonable opinion, (iii) the Lines therefor (including riser cables) shall be appropriately insulated to prevent excessive electromagnetic fields or radiation, shall be surrounded by a protective conduit reasonably acceptable to Landlord, and shall be identified in accordance with the "Identification Requirements," as that term is set forth hereinbelow, (iv) any new or existing Lines servicing the Premises shall comply with all applicable governmental laws and regulations, (v) as a condition to permitting the installation of new Lines, Landlord may require that Tenant remove existing Lines located in or serving the Premises and repair any damage in connection with such removal, and (vi) Tenant shall pay all costs in connection therewith. All Lines shall be clearly marked with adhesive plastic labels (or plastic tags attached to such Lines with wire) to show Tenant's name, suite number, telephone number and the name of the person to contact in the case of an emergency (A) every four feet (4') outside the Premises (specifically including, but not limited to, the electrical room risers and other Common Areas), and (B) at the Lines' termination point(s) (collectively, the "**Identification Requirements**"). Landlord reserves the right, upon notice to Tenant at any time prior to the expiration or earlier termination of this Lease, to require that Tenant, at Tenant's sole cost and expense, remove any Lines located in or serving the Premises prior to the expiration or earlier termination of this Lease.

29.32 **Transportation Management**. Tenant shall fully comply with all present or future programs intended to manage parking, transportation or traffic in and around the Project and/or the Building that are required by any governmental agencies, or are required by Landlord and that do not materially effect Tenant's parking, accessibility to or operation of its business from within the Premises, and in connection therewith, Tenant shall take reasonable action for the transportation planning and management of all employees located at the Premises by working directly with Landlord, any governmental transportation management organization or any other transportation-related committees or entities. Such programs may include, without limitation: (i) restrictions on the number of peak-hour vehicle trips generated by Tenant; (ii) increased vehicle occupancy; (iii) implementation of an in-house ridesharing program and an employee transportation coordinator; (iv) working with employees and any Project, Building or area-wide ridesharing program manager; and (v) instituting employer-sponsored incentives (financial or in-kind) to encourage employees to rideshare.

[SIGNATURES ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

LANDLORD:

ONNI MANHATTAN TOWERS LIMITED PARTNERSHIP,
a Nevada limited partnership

By: ONNI CALIFORNIA LLC,
a Nevada limited liability company,
its general partner

By: Guilio DeCottis
Name: Guilio DeCottis
Title: Director

Date: November 20, 2015
The date of this Lease shall be and remain as set forth in Section 1 of the Summary. The date below the Landlord's signature is merely intended to reflect the date of Landlord's execution of this Lease.

TENANT:

SKECHERS U.S.A., INC.,

By: /s/ Michael Greenberg

Name:

Title:

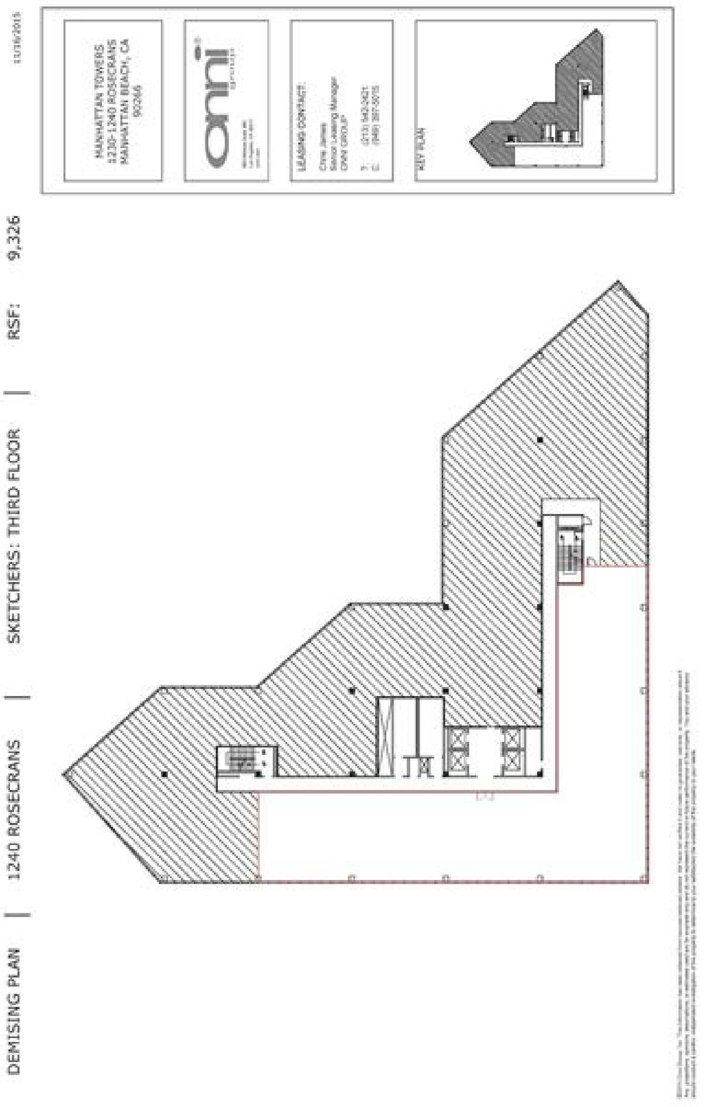
By: /s/ Peter F. Mow
Name: Peter F. Mow

Title: Senior Vice President of Real Estate & Construction

EXHIBIT A

1230-1240 ROSECRANS AVE, MANHATTAN BEACH, CALIFORNIA

OUTLINE OF PREMISES



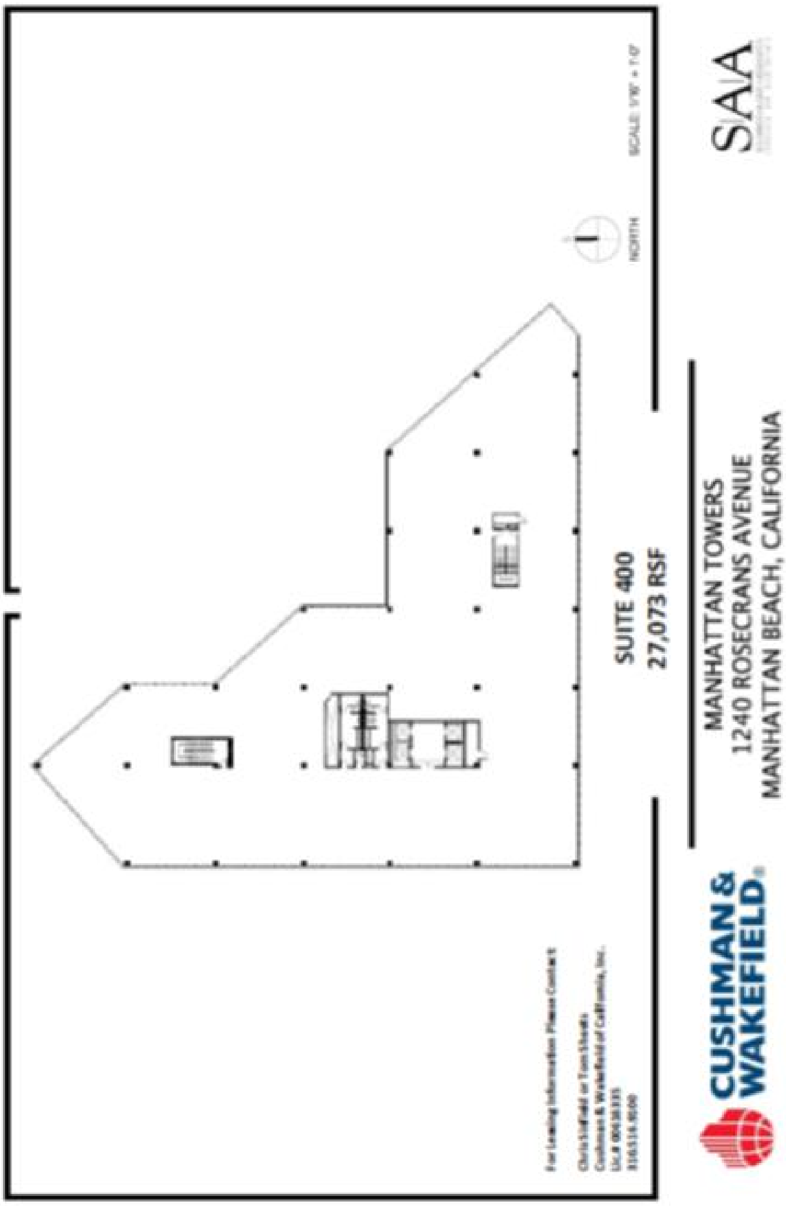


EXHIBIT A
2 of 2

EXHIBIT B

1230-1240 ROSECRANS AVE, MANHATTAN BEACH, CALIFORNIA

TENANT WORK LETTER

This Workletter sets forth the agreement between Landlord and Tenant with respect to Tenant's construction of the Tenant Work. Each initially capitalized term not defined herein that is defined in the Lease shall have the same meaning as that ascribed to it in the Lease.

1 . **Definitions.**

a. The term "**Tenant Work** " shall mean all of the improvements, fixtures and equipment shown or called for by the Tenant Work Plans prepared by Tenant and approved by Landlord, including any Tenant Work Change Orders approved by Landlord.

b. The term "**Tenant's Design Professionals**" shall mean such California licensed architect as Tenant shall engage to prepare the Tenant Work Plans ("**Tenant's Architect**") and such other architects and engineers as shall be directly or indirectly engaged by Tenant in connection with the Building.

2. **Tenant Work.**

a. Preparation and Approval of Tenant Work Plans

1. Tenant shall prepare complete architectural drawings and specifications and complete engineered mechanical, structural and electrical working drawings for improvements to the Premises showing the subdivision, layout, finish and decoration work desired by Tenant, and any internal or external communications or special utility facilities or other improvements within Common Areas (collectively "**Tenant Work Plans** "). The Tenant Work Plans shall: (1) include preliminary locations and dimensions; (2) contain sufficient content and detail for use to obtain any required building permits and preparation of "shop drawings" (if applicable); and (3) show all items of such work in reasonable detail (collectively, the "**Tenant Building Plan Requirements**"). The Tenant Work Plans shall be prepared by Tenant's Design Professionals. Tenant shall submit the Tenant Work Plans accompanied by a list of each sheet of the Tenant Work Plans being submitted (including date and last revision date).

2. Landlord shall have three (3) Business Days from its receipt of the Tenant Work Plans to approve or disapprove the Tenant Work Plans so submitted to Landlord, and to notify Tenant of its reasons for withholding approval. Landlord, if it shall disapprove any Tenant Work Plans, shall deliver to Tenant, concurrently with such notice of disapproval, a reasonably specific statement of its reasons for disapproval and of any specific revisions which Landlord proposes to remedy the matter (it being understood that Landlord shall not be required to propose any such specific revisions).

3. Provided that the Tenant Work Plans so submitted to Landlord conform to the Tenant Building Plan Requirements, Landlord will not unreasonably withhold its approval of the Tenant Work Plans.

4. If Landlord disapproves of the Tenant Work Plans and requests any specific revisions to the Tenant Work Plans, Tenant shall make such changes and, within five (5) Business Days after its receipt of Landlord's requested revisions, shall submit the revised Tenant Work Plans to Landlord.

5. The procedure provided for in Sections 2.1 through 2.4 shall be repeated for each revised and resubmitted version of the Tenant Work Plans until Landlord shall have approved the Tenant Work Plans, except if the initial set of revised Tenant Work Plans submitted to Landlord pursuant to Section 2.4 do not conform in all material respects with Landlord's requested revisions, then the period commencing on the date of Tenant's receipt of

Landlord's second set of revisions and ending on the date that Landlord approves the Proposed Plans shall be a period of Tenant Delay

6. All Tenant Work Plans submitted by or on behalf of Tenant shall be submitted both on paper (half size format) and on CD.

b. Tenant Work. Tenant shall perform the Tenant Work at its sole cost and expense (subject to the provisions of Section 3) and in accordance with Tenant Work Plans approved by Landlord and the requirements of this Workletter. Tenant shall not install any portion of the Tenant Work until Landlord shall have approved the Tenant Work Plans for such portion thereof. Tenant shall prosecute such Tenant Work with commercially reasonable diligence.

c. Tenant Contractors. All Tenant Work shall be performed by Tenant Contractors approved in accordance with Section 7 below. No such Tenant Contractor shall commence the performance of Tenant Work until such Tenant Contractor shall have been so approved by Landlord.

d. Insurance Requirements. No Tenant Contractor shall commence performance of Tenant Work unless Tenant and such Tenant Contractor shall have submitted to Landlord certificates of insurance demonstrating compliance with the requirement of Section 8 of this Workletter.

e. Governmental Approvals. Tenant shall not perform any portion of the Tenant Work for which any Governmental Approval is required to be obtained prior to the performance thereof unless Tenant shall have obtained (and furnished Landlord with a copy of) such Governmental Approval.

f. Tenant Work Changes.

1. The term "**Tenant Work Changes**" shall mean any change in the Tenant Work Plans for any portion of the Tenant Work (or in any portion of the Tenant Work) after Landlord shall have approved the Tenant Work Plans for such portion of the Tenant Work. The term **"Material Tenant Work Change"** shall mean any Tenant Work Change which affects any Building system or ingress to or egress from the Premises, any Tenant Work Change that is visible from outside of the Building or from the Common Area on the floor on which the Premises are located, or any Tenant Work Change which requires a Governmental Approval.

2. All Tenant Work Changes and any other Tenant Work Changes for which Tenant requests Landlord's approval shall be subject to Landlord's approval in accordance with Section 2.b of this Workletter, except the time period within which Landlord shall respond shall be reduced from five (5) Business Days to ten (10) Business Days.

g. Improper Work. If Tenant shall perform any work not reflected on Tenant Work Plans approved by Landlord or a Tenant Work Change not approved by Landlord (any such work being herein called "**Improper Work by Tenant**") then Tenant, upon Landlord's demand, shall remove or correct the same.

h. Effect of Landlord's Approval. Landlord shall have no liability to Tenant or to any third party by virtue of the existence or exercise of its consent or approval rights in this Section 2. Additionally, neither review nor approval by Landlord of any of the Tenant Work Plans shall constitute a representation or warranty by Landlord that such items either (i) are complete or suitable for their intended purpose, (ii) comply with applicable Laws and any insurance requirements, or (iii) conform to the requirements of this Workletter, it being expressly agreed by Tenant that Landlord assumes no responsibility or liability whatsoever to Tenant or to any other person or entity for such completeness, suitability, compliance or conformance.

i. Intentionally Deleted.

j. Protection of Building and Removal of Construction Debris. Tenant will take all reasonable and customary precautionary steps to protect its facilities and the facilities of others affected by the Tenant Work and to properly police same. Tenant shall keep the Premises, fire stairs, all Common Areas and adjacent areas free from accumulations of waste materials or rubbish caused by Tenant or Tenant Contractors. Landlord may require daily removal of waste materials and rubbish if required for fire prevention and life safety reasons or applicable Laws, and reserves the right to remove such waste materials and rubbish at the expense of Tenant if Tenant, after written notice of such failure from Landlord, fails to comply with Landlord's reasonable requirements relating to such removal. At the completion of the Tenant Work, Tenant Contractors shall forthwith remove all rubbish and all tools, equipment and surplus materials from and about the Premises and Building.

k. Damage by Tenant Contractors. Tenant shall include in any written agreement it enters into with a Tenant Contractor a provision that requires such Tenant Contractor to repair any damage is caused by such Tenant Contractor (or any other Tenant Contractors with which such Tenant Contractor has subcontracted) to any portion of the Building or to any property of Landlord or other tenants of the Building in connection with the performance by such Tenant Contractors of the Tenant Work, and Tenant shall use commercially reasonable efforts to cause such Tenant Contractors to repair such damages. Tenant shall reasonably cooperate with Landlord in the enforcement by Landlord of any third party beneficiary rights it may have under any such written agreements, provided such cooperation shall be at no material cost to Tenant, and Landlord shall indemnify and hold harmless Tenant in connection with the enforcement by Landlord of such rights.

l. Accidents. Tenant shall cause Tenant Contractors to take all reasonable safety precautions with respect to the Tenant Work, and to comply with all applicable Laws for the safety of persons or property. Tenant shall report (and shall require Tenant Contractors to report) to Landlord any property damage or injury to any of Tenant's agents or employees and shall furnish Landlord a copy of any accident report filed with its insurance carrier promptly after its occurrence.

m. Building Standard Materials. Tenant acknowledges and agrees that Landlord has established building standard materials and criteria for certain improvements to be installed by all tenants of the Building as part of each such tenant's improvements within its leased premises (the "**Building Standard Materials**"). Tenant shall utilize such Building Standard Materials, as applicable to the Tenant Work, as part of the Tenant Work, and the cost thereof shall be borne by Tenant.

n. Certain Tenant Work Performed by Landlord. Landlord shall have the right, but not the obligation, to perform, on behalf of and for the account of Tenant, any work of or relating to Tenant Work (i) in an Emergency Situation, (ii) that pertains to direct connections between a component of Tenant Work and the mechanical, electrical, plumbing, fire protection, life safety or other systems of the Building, or (iii) that pertain to structural components of the Building. The cost for the performance of such work by Landlord shall be borne by Tenant, at Landlord's cost therefor plus Landlord's fee in an amount equal to five percent (5%) of the cost of such work. Landlord in any event shall prepare all of the lockset cylinders Tenant desires to install in the Premises as part of Tenant Work in accordance with the procedure established therefor by Landlord or, alternatively, Tenant, at Tenant's cost, shall utilize Landlord's designated contractor to prepare such lockset cylinders.

3. **Landlord's Right of Entry; Progress Advisories**.

a. Landlord's Right of Entry.

1. During the construction of, and upon completion of, the Tenant Work, Landlord and its representatives shall have the right to enter the Premises in order to inspect the Tenant Work.

2. Until such time as Landlord's Work in the Premises is completed, Landlord and its representatives shall have the right to enter the Premises in order to perform Landlord's Work therein.

b. Progress Advisories. Within five (5) Business Days of Landlord's request from time to time, Tenant shall furnish Landlord with a copy of Tenant's most recent construction schedule, and any expected deviations therefrom (it being understood that Tenant shall not be deemed to warrant the accuracy of such documents and that the furnishing of such documents shall not limit or constitute a waiver of any of Tenant's rights under this Workletter).

c. Governmental Inspections. Tenant shall endeavor to cause any governmental authority required to have issued a Governmental Approval to perform inspections of the Tenant Work, and Tenant shall make available to Landlord copies of all written inspection reports issued relative to the Tenant Work upon request from Landlord.

d. Notice of Completion; Delivery of As-Built Plans. Promptly after Tenant shall have substantially completed the Tenant Work, Tenant shall notify Landlord of the date of such substantial completion. Tenant shall furnish to Landlord, in both paper and electronic format, at Tenant's cost, "as-built" drawings of the Tenant Work within 60 days after completion of the Tenant Work.

5. **Standards of Performance.** All of the Tenant Work shall be done according to the standards set forth in this Section 5.

a. Compliance with Laws. Tenant shall cause the Tenant Work Plans and the Tenant Work to comply with all Laws applicable thereto, including, without limitation, all applicable building and fire codes of the City of Los Angeles and all other governmental authorities having jurisdiction, and with all requirements of the Americans with Disabilities Act of 1990, 42 U.S.C. §§12-101 et seq.

b. Building Rules and Regulations. Tenant Contractors and all other vendors entering the Building in connection with the performance of the Tenant Work shall comply with the general requirements from time to time promulgated by Landlord for service providers and tenant contractors performing work in the Building.

c. Building Permits. Tenant, at its own cost and expense, shall obtain from any governmental authority having jurisdiction all required building and other permits and approvals relative to the Tenant Work ("**Governmental Approvals**").

d. Certificate of Occupancy. Upon completion of all Tenant Work that is required to obtain a certificate of occupancy for the Premises, Tenant, at its own cost and expense, shall apply for and diligently pursue such application until it obtains such certificate of occupancy.

6. **Freight Elevators/Loading Dock**.

a. Normal Working Hours of the Building. Landlord shall make the Building's freight elevators and loading docks available to Tenant and Tenant Contractors for personnel and small tools during the Normal Working Hours, without charge and without discrimination, in common with others entitled to use the same. Tenant shall not be entitled to use the Building's freight elevators or loading docks for materials during Normal Working Hours.

b. Other Hours. Landlord shall make the Building's freight elevators and loading docks available to Tenant and Tenant Contractors for personnel, small tools, materials and freight outside of Normal Working Hours, on a reserved exclusive basis, subject to advance reservation with Landlord, and Landlord shall administer such reservations without discrimination among the tenants of the Building. Tenant shall pay for usage under this Section in accordance with the then current rates therefor.

c. Normal Working Hours. For purposes of this Workletter, the term "**Normal Working Hours**" shall mean 8**:00 a.m. to 5:00 p.m.** on Business Days.

7. **Landlord's Prior Approval of Contractors**. Each contractor and subcontractor to be used by Tenant for Tenant Work (each a "**Tenant Contractor**") shall be subject to Landlord's approval, which approval shall not be unreasonably withheld, conditioned or delayed. Landlord shall have ten (10) Business Days to approve or disapprove any Tenant Contractor proposed by Tenant in writing, and to notify Tenant of its reasons for withholding approval. Whenever Landlord's approval of any contractor, subcontractor, materialmen, architect, engineer or other consultant is required hereunder, Tenant at any time hereafter (but prior to the time such approval is required) may provide Landlord with a list of such contractors, subcontractors, materialmen, architects, engineers or other consultants for pre-approval by Landlord together with a general description of the work for which such contractor or other service provider is sought to be approved, and Landlord either shall approve or disapprove such contractor or other service provider for the work generally described (with the reasons for such disapproval specified) in writing within ten (10) Business Days after Landlord's receipt of such list.

8. **Insurance**.

a. Tenant shall secure, pay for, and maintain during the continuance of the Tenant Work, policies of insurance satisfying the insurance requirements of the Lease, including builder's risk.

b. Tenant shall require each Tenant Contractor entering the Premises or Building hereunder in connection with the performance of the Tenant Work to secure, pay for, and maintain during the continuance of its work within the Premises or the Building, policies of insurance in the following minimum coverages and minimum limits of liability:

1. Worker's Compensation and Occupational Disease Insurance at statutory limits as provided by the laws of the State of California and Employer's Liability Insurance with limits of not less than $1,000,000, for all costs arising from each accident or occupational disease.

2. Commercial General Liability Insurance (including Contractors' Protective Liability) in an amount not less than $5,000,000 per occurrence, whether involving bodily injury liability (or death resulting therefrom) or property damage liability or a combination thereof and with a minimum aggregate limit of $10,000,000, together with umbrella coverage with limits of (1) not less than $25,000,000 in the case of general contractors, and (2) not less than $5,000,000 in the case of subcontractors. Such insurance shall provide for explosion and collapse, completed operations coverage and broad form blanket contractual liability coverage and shall insure for claims for bodily injury, including death resulting therefrom, and damage to the property of others and arising from operations of each Tenant Contractor, and shall also name Tenant as an additional insured.

3. Comprehensive Automobile Liability Insurance, including the ownership, maintenance and operation of any automotive equipment, owned, hired, or non-owned in an amount not less than $2,000,000 combined single limit for each accident.

c. Tenant shall require each of Tenant's Design Professionals and each of such Tenant's Design Professionals' subcontractors to secure, pay for, and maintain during the continuance of its work in connection with the preparation of the Tenant Work Plans, policies of insurance in the following minimum coverages and minimum limits of liability:

1. Worker's Compensation and Occupational Disease Insurance at statutory limits as provided by the laws of the State of California and Employer's Liability Insurance with limits of not less than $1,000,000, for all costs arising from each accident or occupational disease.

2. Commercial General Liability Insurance (including Contractors' Protective Liability) in an amount not less than $5,000,000 per occurrence, whether involving bodily injury liability (or death resulting therefrom) or property damage liability or a combination thereof and with a minimum aggregate limit of $5,000,000, which limits may be satisfied by any combination of primary and excess or umbrella per occurrence policies. Such insurance

shall provide for explosion and collapse, independent contractors coverage, products and completed operations coverage and broad form blanket contractual liability coverage and shall insure for claims for bodily injury, including death resulting therefrom, and damage to the property of others and arising from operations of each of Tenant's Design Professionals, and shall also name Tenant as an additional insured.

3. Comprehensive Automobile Liability Insurance, including the ownership, maintenance and operation of any automotive equipment, owned, hired, or non-owned in an amount not less than $2,000,000 combined single limit for each accident.

4. Professional Liability / Errors and Omissions Coverage in an amount not less than $1,000,000 per occurrence and with a minimum aggregate limit of $2,000,000. If such coverage is on a "claims made" basis, the insurance shall have a retroactive date of no later than the date the Tenant Work Plans were commenced and must be maintained for at least three years after the completion and acceptance of the work performed under this Workletter. The retroactive date MUST be shown on the certificate of insurance provided.

d. All policies required by Section 8.b and Section 8.c. (except the worker's compensation policy and automobile liability insurance policy) shall be endorsed to include as additional insured parties the Landlord Protected Parties. Such insurance shall also provide that Landlord and any lender shall be given thirty (30) days' prior written notice of any reduction, cancellation of coverage and, in the case of the Commercial General Liability Insurance, shall provide that the insurance coverage afforded to the additional insured parties thereunder shall be primary to any insurance carried independently by said additional insured parties. Additionally, where applicable, each policy shall contain a cross-liability and severability of interest clause.

e. The insurance requirements set forth in Section 8.b and Section 8.c. shall relate and be applicable solely in connection with the performance of the Tenant Work and preparation of the Tenant Work Plans, respectively, that occurs prior to the Commencement Date. All other insurance requirements relating to Tenant and contractors, subcontractors, design professionals, engineers and vendors utilized by Tenant shall be set forth in the Lease or in the rules and regulations of the Building, but Landlord reserves the right to require any subsequent performance of the Tenant Work and/or modifications/revisions to the Tenant Work Plans to be effected in compliance with the insurance requirements set forth herein.

9. **Miscellaneous**.

a. Except as expressly set forth herein or in the Lease, Landlord has no oral or written agreement with Tenant to do any work with respect to the Building or Premises.

b. All notices, requests, consent, approval, demands and other communications under this Workletter shall be in writing and shall be given in the same manner as notices under the Lease.

c. Whenever a party is required to take any action within or by the end of a specific period of time described in this Workletter with reference to a Notice from the other party, the first business day of such period shall be the first Business Day after the Business Day on which such Notice is received by all of the person to whom such Notice must be given as provided for in Section 9.b.

d. This Workletter, together with the Lease, sets forth the entire agreement of Tenant and Landlord regarding Tenant Work. This Workletter may only be amended if in writing and duly executed by both Landlord and Tenant.

e. Time is of the essence of this Workletter and each and all of its provisions; provided, however, that wherever under the terms and provisions of this Workletter the time for payment or performance falls upon a Saturday, Sunday or Holiday (as defined in Article 6 of the Lease), such time for payment or performance shall be extended to the next Business Day.

f. In the event of any express inconsistencies between the Lease and this Workletter, the terms of the Workletter shall govern and control. Any default by a party hereunder shall constitute a default under the Lease and, except to the extent otherwise expressly provided herein, shall be subject to the notice and cure periods and the remedies and other provisions applicable thereto under the Lease.

EXHIBIT C

1230-1240 ROSECRANS AVE, MANHATTAN BEACH, CALIFORNIA

NOTICE OF LEASE TERM DATES

To: ______________________________________
____
____
____

Re: Office Lease dated ____________, 20__ between ONNI MANHATTAN TOWERS LIMITED PARTNERSHIP, a Nevada limited partnership ("**Landlord**"), and Skechers U.S.A., Inc., a Delaware corporation("**Tenant**") concerning Suite ______ on floor(s) three (3) and four (4) of the office building located at 1240 Rosecrans Ave, Manhattan Beach, California.

Gentlemen:

In accordance with the Office Lease (the "**Lease**"), we wish to advise you and/or confirm as follows:

1. The Lease Term shall commence on or has commenced on _____________ for a term of _______________ ending on _______________.

2. Rent commenced to accrue on ____________, in the amount of ____________.

3. If the Lease Commencement Date is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter, with the exception of the final billing, shall be for the full amount of the monthly installment as provided for in the Lease.

4. Your rent checks should be made payable to __________ at ______________.

"Landlord":

ONNI MANHATTAN TOWERS LIMITED PARTNERSHIP,
a Nevada limited partnership

By: ONNI CALIFORNIA LLC,
a Nevada limited liability company,
its general partner

By: ______________________________
Name: ______________________________
Title: ______________________________

Agreed to and Accepted as
of ________, 20__.

"Tenant":

SKECHERS U.S.A., INC.,

By: ______________________________
Name: ______________________________
Title: ______________________________

EXHIBIT D

1230-1240 ROSECRANS AVE, MANHATTAN BEACH, CALIFORNIA

RULES AND REGULATIONS

Tenant shall faithfully observe and comply with the following Rules and Regulations. Landlord shall not be responsible to Tenant for the nonperformance of any of said Rules and Regulations by or otherwise with respect to the acts or omissions of any other tenants or occupants of the Project. In the event of any conflict between the Rules and Regulations and the other provisions of this Lease, the latter shall control.

1. Except as provided in the Lease, Tenant shall not alter any lock or install any new or additional locks or bolts on any doors or windows of the Premises without obtaining Landlord's prior written consent (which consent shall not be unreasonable withheld, conditioned or delayed). Tenant shall bear the cost of any lock changes or repairs required by Tenant. Two keys will be furnished by Landlord for the Premises, and any additional keys required by Tenant must be obtained from Landlord at a reasonable cost to be established by Landlord. Upon the termination of this Lease, Tenant shall restore to Landlord all keys of stores, offices, and toilet rooms, either furnished to, or otherwise procured by, Tenant and in the event of the loss of keys so furnished, Tenant shall pay to Landlord the cost of replacing same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such changes.

2. All doors opening to public corridors shall be kept closed at all times except for normal ingress and egress to the Premises.

3. Landlord reserves the right to close and keep locked all entrance and exit doors of the Building during such hours as are customary for comparable buildings in the South Bay, California area, except for during Building Hours. Tenant, its employees and agents must be sure that the doors to the Building are securely closed and locked when leaving the Premises if it is after the normal hours of business for the Building. Any tenant, its employees, agents or any other persons entering or leaving the Building at any time when it is so locked, or any time when it is considered to be after normal business hours for the Building, may be required to sign the Building register. Access to the Building may be refused unless the person seeking access has proper identification or has a previously arranged pass for access to the Building. Landlord will furnish passes to persons for whom Tenant requests same in writing. Tenant shall be responsible for all persons for whom Tenant requests passes and shall be liable to Landlord for all acts of such persons. The Landlord and his agents shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, Landlord reserves the right to prevent access to the Building or the Project during the continuance thereof by any means it deems appropriate for the safety and protection of life and property.

4. No furniture, freight or equipment of any kind shall be brought into the Building without prior notice to Landlord. All moving activity into or out of the Building shall be scheduled with Landlord and done only at such time and in such manner as Landlord reasonably designates. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy property brought into the Building and also the times and manner of moving the same in and out of the Building. Safes and other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property in any case. Any damage to any part of the Building, its contents, occupants or visitors by moving or maintaining any such safe or other property shall be the sole responsibility and expense of Tenant.

5. No heavy furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators, except between such hours, in such specific elevator and by such personnel as shall be designated by Landlord.

6. The requirements of Tenant will be attended to only upon application at the management office for the Project or at such office location designated by Landlord. Employees of Landlord shall not perform any work or do anything outside their regular duties unless under special instructions from Landlord.

7. Except as provided in the Lease, no sign, advertisement, notice or handbill shall be exhibited, distributed, painted or affixed by Tenant on any part of the Premises or the Building without the prior written consent of the Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant shall not disturb, solicit, peddle, or canvass any occupant of the Project and shall cooperate with Landlord and its agents of Landlord to prevent same.

8. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the tenant who, or whose servants, employees, agents, visitors or licensees shall have caused same.

9. Except as provided in the Lease, Tenant shall not overload the floor of the Premises, nor mark, drive nails or screws, or drill into the partitions, woodwork or drywall or in any way deface the Premises or any part thereof without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant shall not purchase spring water, ice, towel, linen, maintenance or other like services from any person or persons not approved by Landlord.

10. Except for vending machines intended for the sole use of Tenant's employees and invitees, no vending machine or machines other than fractional horsepower office machines shall be installed, maintained or operated upon the Premises without the written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed.

11. Tenant shall not use or keep in or on the Premises, the Building, or the Project any kerosene, gasoline or other inflammable or combustible fluid, chemical, substance or material.

12. Tenant shall not without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed, use any method of heating or air conditioning other than that supplied by Landlord.

13. Tenant shall not use, keep or permit to be used or kept, any foul or noxious gas or substance in or on the Premises, or permit or allow the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Project by reason of noise, odors, or vibrations, or interfere with other tenants or those having business therein, whether by the use of any musical instrument, radio, phonograph, or in any other way. Tenant shall not throw anything out of doors, windows or skylights or down passageways.

14. Tenant shall not bring into or keep within the Project, the Building or the Premises any animals, birds, aquariums, or, except in areas designated by Landlord, bicycles or other vehicles.

15. No cooking shall be done or permitted on the Premises, nor shall the Premises be used for the storage of merchandise, for lodging or for any improper, objectionable or immoral purposes. Notwithstanding the foregoing, Underwriters' laboratory-approved equipment and microwave ovens may be used in the Premises for heating food and brewing coffee, tea, hot chocolate and similar beverages for employees and visitors, provided that such use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations.

16. The Premises shall not be used for manufacturing or for the storage of merchandise except as such storage may be incidental to the use of the Premises provided for in the Summary. Tenant shall not occupy or permit any portion of the Premises to be occupied as an office for a messenger-type operation or dispatch office,

public stenographer or typist, or for the manufacture or sale of liquor, narcotics, or tobacco in any form, or as a medical office, or as a barber or manicure shop, or as an employment bureau without the express prior written consent of Landlord. Tenant shall not engage or pay any employees on the Premises except those actually working for such tenant on the Premises nor advertise for laborers giving an address at the Premises.

17. Landlord reserves the right to exclude or expel from the Project any person who, in the reasonable judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of these Rules and Regulations.

18. Tenant, its employees and agents shall not loiter in or on the entrances, corridors, sidewalks, lobbies, courts, halls, stairways, elevators, vestibules or any Common Areas for the purpose of smoking tobacco products or for any other purpose (except in designated areas), nor in any way obstruct such areas, and shall use them only as a means of ingress and egress for the Premises.

19. Tenant shall not waste electricity, water or air conditioning and agrees to cooperate fully with Landlord to ensure the most effective operation of the Building's heating and air conditioning system, and shall refrain from attempting to adjust any controls.

20. Tenant shall store all its trash and garbage within the interior of the Premises. No material shall be placed in the trash boxes or receptacles if such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in Manhattan Beach, California without violation of any law or ordinance governing such disposal. All trash, garbage and refuse disposal shall be made only through entry-ways and elevators provided for such purposes at such times as Landlord shall designate.

21. Tenant shall comply with all reasonable safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

22. Any persons employed by Tenant to do janitorial work shall be subject to the prior written approval of Landlord (which approval shall not be unreasonably withheld, conditioned or delayed), and while in the Building and outside of the Premises, shall be subject to and under the control and direction of the Building manager (but not as an agent or servant of such manager or of Landlord), and Tenant shall be responsible for all acts of such persons.

23. No awnings or other projection shall be attached to the outside walls of the Building without the prior written consent of Landlord, and no curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises other than Landlord standard drapes. All electrical ceiling fixtures hung in the Premises or spaces along the perimeter of the Building must be fluorescent and/or of a quality, type, design and a warm white bulb color approved in advance in writing by Landlord. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without the prior written consent of Landlord. Tenant shall abide by Landlord's regulations concerning the opening and closing of window coverings which are attached to the windows in the Premises, if any, which have a view of any interior portion of the Building or Building Common Areas.

24. The sashes, sash doors, skylights, windows, and doors that reflect or admit light and air into the halls, passageways or other public places in the Building shall not be covered or obstructed by Tenant, nor shall any bottles, parcels or other articles be placed on the windowsills.

25. Tenant must comply with requests by the Landlord concerning the informing of their employees of items of importance to the Landlord.

26. Tenant must comply with the State of California "No-Smoking" law set forth in California Labor Code Section 6404.5, and any local "No-Smoking" ordinance which may be in effect from time to time and which is not superseded by such State law.

27. Tenant hereby acknowledges that Landlord shall have no obligation to provide guard service or other security measures for the benefit of the Premises, the Building or the Project. Tenant hereby assumes all responsibility for the protection of Tenant and its agents, employees, contractors, invitees and guests, and the property thereof, from acts of third parties, including keeping doors locked and other means of entry to the Premises closed, whether or not Landlord, at its option, elects to provide security protection for the Project or any portion thereof. Tenant further assumes the risk (except for the negligence of willful misconduct of Landlord or Landlord Parties) that any safety and security devices, services and programs which Landlord elects, in its sole discretion, to provide may not be effective, or may malfunction or be circumvented by an unauthorized third party, and Tenant shall, in addition to its other insurance obligations under this Lease, obtain its own insurance coverage to the extent Tenant desires protection against losses related to such occurrences. Tenant shall cooperate in any reasonable safety or security program developed by Landlord or required by law.

28. Tenant shall not use in any space or in the public halls of the Building, any hand trucks except those equipped with rubber tires and rubber side guards.

29. No auction, liquidation, fire sale, going-out-of-business or bankruptcy sale shall be conducted in the Premises without the prior written consent of Landlord.

30. No tenant shall use or permit the use of any portion of the Premises for living quarters, sleeping apartments or lodging rooms.

Landlord reserves the right at any time to change or rescind any one or more of these Rules and Regulations, or to make such other and further reasonable Rules and Regulations as in Landlord's reasonable judgment may from time to time be necessary for the management, safety, care and cleanliness of the Premises, Building, the Common Areas and the Project, and for the preservation of good order therein, as well as for the convenience of other occupants and tenants therein. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant, nor prevent Landlord from thereafter enforcing any such Rules or Regulations against any or all tenants of the Project. Tenant shall be deemed to have read these Rules and Regulations and to have agreed to abide by them as a condition of its occupancy of the Premises. Landlord agrees to use commercially reasonable efforts to enforce the Rules and Regulations in a consistent and non-arbitrary manner

EXHIBIT E

1230-1240 ROSECRANS AVE, MANHATTAN BEACH, CALIFORNIA

FORM OF TENANT'S ESTOPPEL CERTIFICATE

The undersigned as Tenant under that certain Office Lease (the "**Lease**") made and entered into as of ___________, 20_ by and between Onni Manhattan Towers Limited Partnership, a Nevada limited partnership as Landlord, and the undersigned as Tenant, for Premises on the ______________ floor(s) of the office building located at 1230-1240 Rosecrans Ave, Manhattan Beach, California, certifies as follows:

1. Attached hereto as **Exhibit A** is a true and correct copy of the Lease and all amendments and modifications thereto. The documents contained in **Exhibit A** represent the entire agreement between the parties as to the Premises.

2. The undersigned currently occupies the Premises described in the Lease, the Lease Term commenced on __________, and the Lease Term expires on ___________, and except as provided in the Lease, the undersigned has no option to terminate or cancel the Lease or to purchase all or any part of the Premises, the Building and/or the Project.

3. Base Rent became payable on ____________.

4. The Lease is in full force and effect and has not been modified, supplemented or amended in any way except as provided in **Exhibit A**.

5. Tenant has not transferred, assigned, or sublet any portion of the Premises nor entered into any license or concession agreements with respect thereto except as follows:

6. Tenant shall not modify the documents contained in **Exhibit A** that would decrease rent, shorten the Lease Term, or materially increased Landlord’s mortgagee’s obligations or decreases its rights without the prior written consent of Landlord's mortgagee, which shall not be unreasonably withheld, conditioned or delayed.

7. All monthly installments of Base Rent, all Additional Rent and all monthly installments of estimated Additional Rent have been paid when due through ___________. The current monthly installment of Base Rent is $_____________________.

8. All conditions of the Lease to be performed by Landlord necessary to the enforceability of the Lease have been satisfied and Landlord is not in default thereunder. In addition, the undersigned has not delivered any notice to Landlord regarding a default by Landlord thereunder.

9. No rental has been paid more than thirty (30) days in advance and no security has been deposited with Landlord except as provided in the Lease.

10. To Tenant’s actual knowledge, as of the date hereof, there are no existing defenses or offsets, or, to the undersigned's knowledge, claims or any basis for a claim, that the undersigned has against Landlord.

11. If Tenant is a corporation or partnership, each individual executing this Estoppel Certificate on behalf of Tenant hereby represents and warrants that Tenant is a duly formed and existing entity qualified to do business in California and that Tenant has full right and authority to execute and deliver this Estoppel Certificate and that each person signing on behalf of Tenant is authorized to do so.

12. To Tenant’s actual knowledge, t here are no actions pending against the undersigned under the bankruptcy or similar laws of the United States or any state.

13. Other than in compliance with all applicable laws and incidental to the ordinary course of the use of the Premises, the undersigned has not used or stored any hazardous substances in the Premises.

14. To the undersigned's actual knowledge, all tenant improvement work to be performed by Landlord under the Lease has been completed in accordance with the Lease and has been accepted by the undersigned and all reimbursements and allowances due to the undersigned under the Lease in connection with any tenant improvement work have been paid in full.

15. Notwithstanding anything in this Estoppel Certificate to the contrary (a) Tenant reserves the right to pursue any claim for overpayment of rent or any other charges under the Lease, if any, against Landlord and any successor landlord after any such successor landlord succeeds to the right of any Landlord, (b) the Lease remains unchanged and this Estoppel Certificate does not modify, amend or otherwise change the terms of the Lease, and (c) this Estoppel Certificate shall not subject the Tenant to any liability, notwithstanding the negligent or otherwise inadvertent failure of Tenant to disclose correct and/or relevant information; however, Tenant shall not be permitted to assert or enforce any claim against the person to whom this Estoppel Certificate is delivered (or against such person’s property) which is inconsistent with the statements contained herein, except to the extent that the person against whom the claim would otherwise be asserted or enforced had actual knowledge of facts to the contrary at the time the person acted in reliance on the statement

The undersigned acknowledges that this Estoppel Certificate may be delivered to Landlord or to a prospective mortgagee or prospective purchaser, and acknowledges that said prospective mortgagee or prospective purchaser will be relying upon the statements contained herein in making the loan for a period not to exceed ninety (90) days from the date hereof or acquiring the property of which the Premises are a part and that receipt by it of this certificate is a condition of making such loan or acquiring such property.

Executed at ______________ on the ____ day of ___________, 20__.

"Tenant":

____,
a ____

By: ____
Its: _______________________________________

By: ____
Its: _______________________________________

EXHIBIT F

1230-1240 ROSECRANS AVE, MANHATTAN BEACH, CALIFORNIA

ADDITIONAL PROVISIONS

1. Building Signage

Subject to the provisions of this Exhibit F, Tenant shall be allowed to display for the Lease Term Building-standard signage on the Project's top portion available of the exterior monument sign (one double sided panel) (the "**Monument Signage**") as identified on Exhibit G.

Tenant shall have the right to "building-top" identity signage ("**Building Signage**") on top of the Building facing North West, The Building Signage may be illuminated in order to be viewed at night so long as all costs and expenses associated with causing Building systems and structures to support such illumination are at the sole cost and expense of Tenant. Tenant reserves the right to change the names on any Tenant Signage (defined below) so long as such change is otherwise in accordance with the terms of this Lease. The Monument Signage and the Building Signage shall hereafter be referred to as the "**Tenant Signage**." The Tenant Signage shall (A) comply with all governmental laws, regulations, rules, codes and ordinances pertaining thereto, (B) comply with all provisions of this Lease, (C) have received the prior approval of all appropriate governmental bodies, including required permits, (D) have received the prior written reasonable approval of Landlord as to all aspects of the Tenant Signage, including, without limitation, design and location thereof, and (E) conform to Landlord's reasonable signage criteria for the Project. All costs and expenses relating to the Tenant Signage, including without limitation, (i) the cost of the initial installation of or any changes to the Tenant Signage, (ii) the costs of obtaining permits and approvals, (iii) the costs for the construction, maintenance, repair and replacement of the Tenant Signage, (iv) the cost for the maintenance of the Tenant Signage and any electrical consumption for illuminating the Tenant Signage, if any, and (v) the costs associated with the removal of the Tenant Signage and the restoration of the area required due to such removal, including, but not limited to, costs associated with the restoration of landscaping damaged by removal of Tenant Signage, to the condition existing prior to the installation of the Tenant Signage, shall be at the sole cost and expense of Tenant. Landlord and Tenant agree that Tenant Signage set forth in Exhibit G has been approved by Landlord and it is in compliance with Landlord's sign criteria.

Tenant shall pay to Landlord, within thirty (30) days following written demand any and all such costs (except for such costs payable directly by Tenant to any governmental entity). After the Term or the expiration or earlier termination of this Lease, Landlord may elect, upon ten (10) days written notice to Tenant, to repair, maintain, replace and remove the Tenant Signage at Tenant's cost. The Tenant Signage shall at all times during the term hereof be maintained in working, first-class condition. The signage rights granted in this Exhibit F, are personal to Tenant and a Permitted Transferee and may not be transferred by Tenant to any other person or entity. If Tenant shall assign this Lease, sublet the entire Premises or otherwise Transfer any interest of Tenant in this Lease or the Premises to anyone other than a Permitted Transferee, or attempt to transfer any signage right to a sublessee of less than the entire Premises or attempt to transfer any signage right in violation of this Lease, then the rights granted Tenant under this Exhibit F shall terminate and Landlord shall have the right to immediately remove the Tenant Signage and restore the signs as hereinabove provided.

2. Right of First Refusal

If and at such time as any portion of the third (3rd) floor of the Building, ("**Refusal Space**") becomes available for lease, Landlord shall notify Tenant in writing of such availability, stating the location, configuration and rentable area of such Refusal Space, and the date on which such Refusal Space would be tendered to Tenant (each, a "***Refusal Notice***"). Tenant shall have five (5) business days after receipt of each Refusal Notice to deliver to Landlord, in writing, notice of exercise of Tenant's option to lease the subject Refusal Space on the same terms and conditions set forth herein, including without limitation, Base Rent, free or abated rent, Tenant Improvement

Allowance, Landlord's Work and Tenant's Work, as applicable, but prorated based upon the remainder of the unexpired Term and any option period which Tenant agrees to exercise, in the Refusal Notice (the "***Exercise Notice***"). If Tenant does not timely deliver an Exercise Notice, Landlord shall be free to lease the subject Refusal Space to any third party on the basic economic terms and conditions ("***Basic Economic Terms***") as determined by Landlord. If Tenant exercises its right to lease any the Refusal Space, Landlord and Tenant shall, within thirty (30) days after such exercise, execute an amendment to this Lease providing for the expansion of the Premises. Upon the commencement date of the Expansion Space as set forth in such Amendment, Tenant's Share shall be increased to reflect the rentable area of the Refusal Space.

3. Tenant Improvement Allowance.

Upon completion of Tenant's Work, Tenant shall deliver to Landlord copies of the following documents: (i) an accounting (with underlying documents) of the costs of construction up to the amount of the Tenant Improvement Allowance; (ii) copies of all releases of mechanics' and materialmen's liens from all contractors and subcontractors performing Tenant's Work; and (iii) if a building permit is required for the completion of Tenant's Work, then a copy of a Certificate of Occupancy, or equivalent documentation from the City of Manhattan Beach demonstrating completion of Tenant's Work. Within thirty (30) days of Landlord's receipt of the above-described documents, Landlord shall pay to Tenant, as the Tenant Improvement Allowance, the sum of fifty and 00/100 Dollars ($50.00) per rentable square foot of the Premises floor area, subject to adjustment pursuant to Section 1.2. Should such payment not be forthcoming following thirty (30) days prior written notice, then Tenant shall be entitled to offset the monies due plus an administrative charge equal to five percent (5%) of the money due from the next due installment(s) of Base Rent hereunder.

4. Hazardous Materials.

Landlord represents and warrants to Tenant that, to Landlord's actual knowledge, (i) no leak, spill, discharge, emission or disposal of hazardous or toxic material or substance in a concentration sufficient to be characterized as "hazardous" or "toxic" under local, state or federal environmental law, statute or regulation ("Hazardous Materials") has occurred on the Premises or the Project in violation of Applicable Laws, except as shall have been fully remediated in full compliance with all Applicable Laws, and (ii) the soil, groundwater, and sewer vapor on or under the Project are free of Hazardous Materials in amounts required to be treated, remediated, or removed pursuant to Applicable Laws as of the date hereof. Tenant shall not have any liability for (i) any Hazardous Material brought onto the Premises or the Project prior to the Possession Date unless Tenant brought them ("Pre-Commencement Hazardous Material Conditions"), or (ii) any effects arising out of or caused by any such Pre-Commencement Hazardous Material Condition (other than as caused by Tenant), including, without limitation, any contamination or injury to person, property or the environment or any liabilities or costs associated with the investigation, removal, remediation, restoration and/or abatement thereof, or of any actual or suspected contamination therein involved, regardless of whether the effects of such Pre-Commencement Hazardous Material Condition are known as of the Possession Date or arise and/or are discovered at any time after the Possession Date. All liabilities relating to any Hazardous Materials which are created or brought onto the Premises or the Project from and after the Possession Date by persons, entities or instrumentalities other than Tenant or its agents, employees, or contractors shall not be the responsibility of Tenant. Landlord's and Tenant's obligations and liabilities under this Article shall survive the termination of this Lease.

5. Default by Landlord.

Tenant's remedies with regard to Landlord's default in the performance of its maintenance and repair obligations are set forth in Section 7.2. If Landlord should be in default in the performance of any of its other obligations under this Lease, which default continues for a period of more than twenty (20) days after receipt of written notice from Tenant specifying such default, or if such default is of a nature to require more than twenty (20) days for remedy and continues beyond the time reasonably necessary to cure (and Landlord has not undertaken procedures to cure the default within such twenty (20) day period and diligently pursued such efforts to complete such cure), Tenant may, in addition to any other remedy available at law or in equity, including incurring reasonable expenses necessary to perform the obligation of Landlord specified in such notice and in the event Landlord does not reimburse Tenant for such reasonable expenses within thirty (30) days of prior written notice plus an administrative charge equal to five percent (5%) of the amount thereof, then Tenant shall be entitled to deduct such expense from the Base Rent or other charges next becoming due. Furthermore, in the event that Landlord's breach has a material adverse effect upon Tenant's use, quiet enjoyment or access to the Premises, then following a second ten (10) day written notice to Landlord, in the event that the Landlord does not undertake the cure within said ten (10) day period and thereafter proceed diligently to complete same, Tenant shall be entitled to terminate this Lease. Notwithstanding the above, in the event that Landlord disputes that it is in default hereunder by providing written notice thereof to Tenant within the twenty (20) days following Tenant's initial notice, then the dispute will be resolved pursuant to the expedited arbitration provisions of Exhibit H and in the event that the arbitrator determines that Landlord was in default, Landlord shall be provided with a reasonable opportunity to cure (not to exceed thirty [30] days) and in the event that Landlord effectuates the cure, Tenant shall not have the right to terminate the Lease.

6. **Cleaning.**

Landlord agrees, at its sole cost and expense, to thoroughly clean both the 3rd Floor Premises and the 4th Floor Premises immediately prior to the time that Tenant's employees will take occupancy thereof.

7. **Building Security**.

Tenant, at Tenant's sole cost and expense, and with Landlord's consent which shall not be unreasonably withheld, delayed or conditioned, shall be permitted to install its own security system for the 3rd Floor Premises and the 4th Floor Premises, which system may operate on the same type of key card as the Building system, but may not otherwise be integrated with the Building's security system.

EXHIBIT G

TENANT SIGNAGE

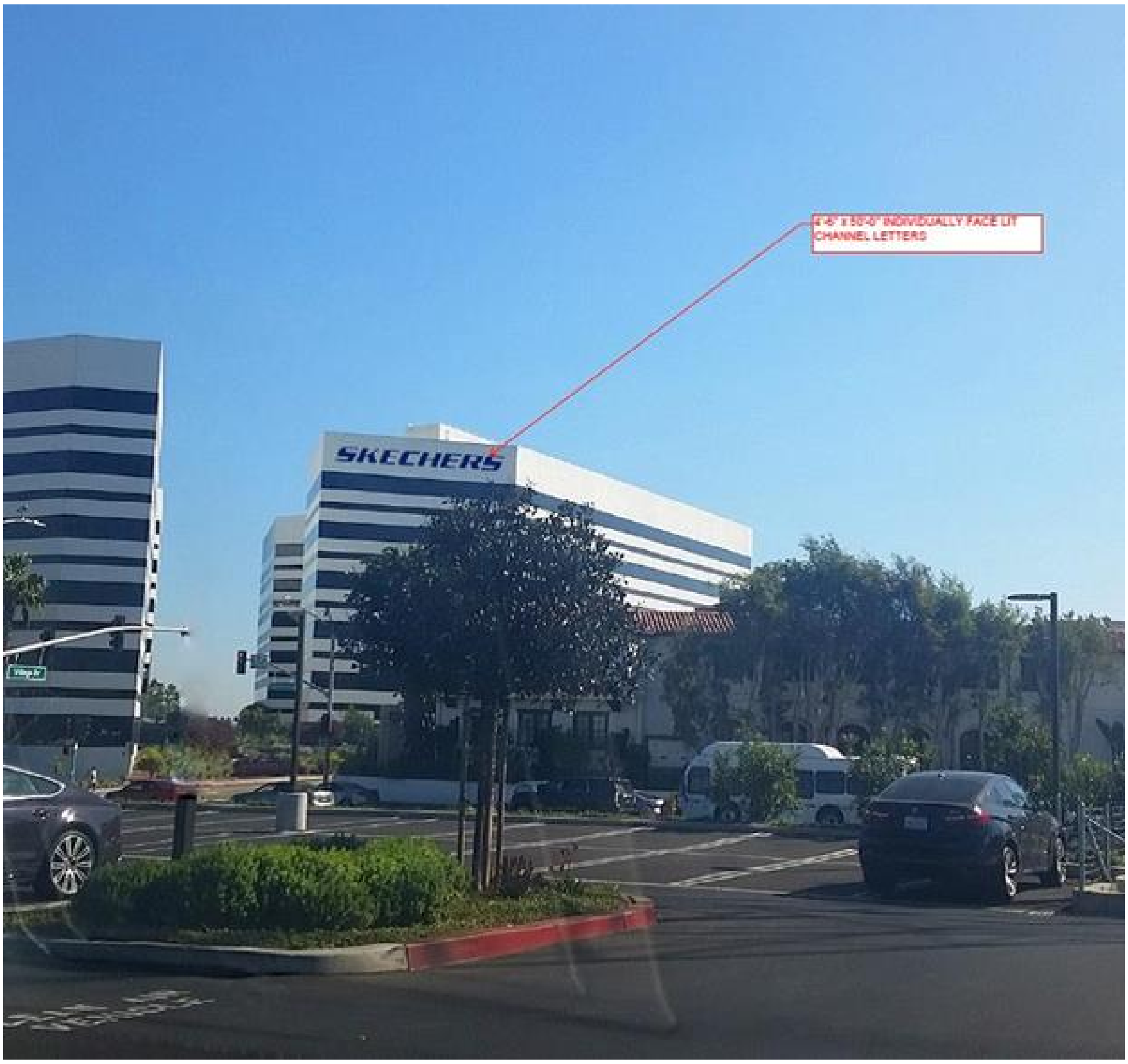


EXHIBIT G

EXHIBIT H

EXPEDITED ARBITRATION PROCEDURE

For all matters to be decided pursuant to the "Expedited Arbitration Procedure" as provided for in Sections 2.2.4.6, 4.4.2, 7.2, 11.2 and Exhibit F of this Lease, the following procedure will apply:

A. Within three (3) business days after a party's request to invoke the Expedited Arbitration Procedures, the parties or their counsel will schedule and conduct a conference call with the Los Angeles, California office of JAMS during which they will either agree upon an arbitrator or JAMS will designate an arbitrator to determine the dispute. The parties will seek designation of an arbitrator with experience in commercial leases.

B. The parties agree to utilize the Optional Expedited Arbitration Procedures of JAMS, subject to the following exceptions: (i) a Preliminary Conference with the arbitrator will be scheduled at the earliest possible date, which conference may be conducted by conference call; (ii) any requests for discovery are to be submitted within five (5) business days after said Preliminary Conference and will be completed by the recipient and submitted to the requesting party within ten (10) business days thereafter; (iii) the arbitration is to be scheduled at the earliest possible date following the Preliminary Conference. Additionally, the arbitrator shall be entitled to establish further rules or procedures to allow short extensions of the above time limitations as the arbitrator may determine to be equitable, recognizing the parties' intent to resolve the dispute at the earliest possible date.

C. If a party fails to participate in the arbitration as described above for any matter to be decided pursuant to the "Expedited Arbitration Procedure" as provided for in Sections 2.2.4.6, 4.4.2, 7.2, 11.2 and Exhibit F. of this Lease, then for purposes of exercising its rights to remedies under this Lease, the participating party shall be deemed to have prevailed in the arbitration and shall be entitled to exercise the rights and remedies resulting therefrom.

D. Any matter otherwise subject to the Expedited Arbitration Procedure which involves a monetary dispute within the jurisdiction of a small claims court will instead be determined by that court.

E. **THE FOLLOWING NOTICE APPLIES ONLY TO MATTERS TO BE DECIDED PURSUANT TO THE "EXPEDITED ARBITRATION PROCEDURE" PROVIDED FOR IN SECTIONS 2.2.4.6, 4.4.2, 7.2, 11.2 AND EXHIBIT F OF THIS LEASE.**

NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "EXPEDITED ARBITRATION PROCEDURE" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "EXPEDITED ARBITRATION PROCEDURE" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY. WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE "EXPEDITED ARBITRATION PROCEDURE" PROVISION TO NEUTRAL ARBITRATION.

LANDLORD'S INITIALS ____ **TENANT'S INITIALS ____**

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	State/Country of Incorporation/Organization
BrandBlack, LLC	California
Duncan Investments, LLC	California
Sepulveda Blvd. Properties, LLC	California
Sepulveda Design Center, LLC	California
Skechers Collection, LLC	California
Skechers Sport, LLC	California
HF Logistics-SKX T1, LLC	Delaware
HF Logistics-SKX T2, LLC	Delaware
HF Logistics-SKX, LLC	Delaware
Savva’s Café, Inc.	Delaware
Skechers By Mail, Inc.	Delaware
Skechers R.B., LLC	Delaware
SKX Illinois, LLC	Illinois
Skechers Card Services, LLC	Virginia
Skechers U.S.A., Inc. II	Virginia
Skechers (Barbados) SRL	Barbados
Skechers EDC SPRL	Belgium
Skechers BH d.o.o.	Bosnia & Herzegovina
Skechers Do Brasil Calcados LTDA	Brazil
Skechers USA Canada Inc.	Canada
Comercializadora Skechers Chile Limitada	Chile
Skechers Footwear (Dongguan) Co., Ltd.	China
Skechers Guangzhou Co., Ltd.	China
Skechers Trading (Shanghai) Co. Ltd.	China
Skechers E-Commerce Co., Ltd.	China
Skechers China Hengqin Co., Ltd.	China
Leadtime Co., Ltd.	China
Fujian Skechers E-commerce Co., Ltd	China
Skechers Beijing Co.,Ltd	China
Skechers Xinjiang Co.,Ltd	China
Skechers Chengdu Co.,Ltd	China
Skechers Colombia, S.A.S.	Colombia
Sepulveda Footwear Costa Rica, S.R.L.	Costa Rica
Skechers Czech Republic S.R.O.	Czech Republic
Skechers USA Ltd.	England
Skechers USA France SAS	France
Skechers USA Deutschland GmbH	Germany
Skechers China Limited	Hong Kong
Skechers Hong Kong Limited	Hong Kong
Skechers Southeast Asia Limited	Hong Kong
Skechers CEE Kft.	Hungary
Skechers South Asia Private Limited	India
Skechers Retail India Private Limited	India
Skechers Footwear Ltd.	Israel
Skechers USA Italia S.r.l	Italy

Skechers Japan GK	Japan
Skechers China Business Trust	Jersey
Skechers Holdings Jersey Limited	Jersey
Skechers International	Jersey
Skechers International II	Jersey
Skechers Macau Limited	Macau
Skechers Malaysia Sdn. Bhd.	Malaysia
Skechers Holdings Mauritius	Mauritius
Skechers USA Mauritius 10	Mauritius
Skechers USA Mauritius 90	Mauritius
Skechers USA Benelux B.V	Netherlands
Skechers Latin America, LLC	Panama
Skechers Panama, LLC	Panama
Skechers Peru, S.R.L.	Peru
Skechers Poland Sp. z o.o.	Poland
Skechers USA Portugal Unipessoal Limitada	Portugal
Skechers USA Romania S.R.L.	Romania
Skechers Singapore Pte. Limited	Singapore
Skechers Slovakia s.r.o.	Slovakia
Skechers Korea Co., Ltd.	South Korea
Skechers USA Iberia, S.L.	Spain
Skechers S.a.r.l.	Switzerland
Skechers (Thailand) Limited	Thailand
Skechers Vietnam Co. Ltd.	Vietnam

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Skechers U.S.A., Inc.
Manhattan Beach, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-147095) of Skechers U.S.A., Inc. and subsidiaries of our reports dated March 1, 2017, relating to the consolidated financial statements and schedule, and the effectiveness of internal control over financial reporting of Skechers U.S.A., Inc. and subsidiaries, which appear in this Form 10-K.

/s/ BDO USA, LLP

March 1, 2017
Los Angeles, California

Exhibit 31.1

CERTIFICATION

I, Robert Greenberg, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2016 of Skechers U.S.A., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 1, 2017

/s/ Robert Greenberg

Robert Greenberg
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, David Weinberg, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2016 of Skechers U.S.A., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2017

/s/ David Weinberg

David Weinberg
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Skechers U.S.A, Inc. (the "Company") on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the date indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Greenberg

Robert Greenberg
Chief Executive Officer
(Principal Executive Officer)
March 1, 2017

/s/ David Weinberg

David Weinberg
Chief Financial Officer
(Principal Financial and Accounting Officer)
March 1, 2017

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO THE COMPANY AND WILL BE RETAINED BY THE COMPANY AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.