
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 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)

228 Manhattan Beach Blvd.
Manhattan Beach, California
(Address of Principal Executive Office)

95-4376145
(I.R.S. Employer
Identification No.)

90266
(Zip Code)

(310) 318-3100

(Registrant's Telephone Number, Including Area Code)

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of Class A Common Stock outstanding as of November 1, 2018: 133,880,258.

The number of shares of Class B Common Stock outstanding as of November 1, 2018: 24,163,312.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
FORM 10-Q
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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 802,771	\$ 736,431
Short-term investments	87,277	—
Trade accounts receivable, less allowances of \$25,609 in 2018 and \$51,180 in 2017	503,954	405,921
Other receivables	48,843	27,083
Total receivables	552,797	433,004
Inventories	755,068	873,016
Prepaid expenses and other current assets	83,085	62,573
Total current assets	2,280,998	2,105,024
Property, plant and equipment, net	565,395	541,601
Deferred tax assets	28,224	29,922
Long-term investments	91,086	17,396
Other assets, net	38,772	41,139
Total non-current assets	723,477	630,058
TOTAL ASSETS	\$ 3,004,475	\$ 2,735,082
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of long-term borrowings	\$ 4,581	\$ 1,801
Short-term borrowings	12,674	8,011
Accounts payable	528,077	505,334
Accrued expenses	119,584	82,202
Total current liabilities	664,916	597,348
Long-term borrowings, excluding current installments	69,782	71,103
Deferred tax liabilities	160	161
Other long-term liabilities	102,362	118,259
Total non-current liabilities	172,304	189,523
Total liabilities	837,220	786,871
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; 130,802 and 131,784 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	131	132
Class B common stock, \$0.001 par value; 75,000 shares authorized; 24,163 and 24,545 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	24	24
Additional paid-in capital	410,467	453,417
Accumulated other comprehensive loss	(30,133)	(14,744)
Retained earnings	1,643,898	1,390,235
Skechers U.S.A., Inc. equity	2,024,387	1,829,064
Non-controlling interests	142,868	119,147
Total stockholders' equity	2,167,255	1,948,211
TOTAL LIABILITIES AND EQUITY	\$ 3,004,475	\$ 2,735,082

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$ 1,176,395	\$ 1,094,829	\$ 3,561,270	\$ 3,193,571
Cost of sales	612,529	574,842	1,853,344	1,708,765
Gross profit	563,866	519,987	1,707,926	1,484,806
Royalty income	4,860	2,917	15,732	10,368
	<u>568,726</u>	<u>522,904</u>	<u>1,723,658</u>	<u>1,495,174</u>
Operating expenses:				
Selling	90,138	89,559	288,606	263,318
General and administrative	354,676	316,852	1,080,984	904,631
	<u>444,814</u>	<u>406,411</u>	<u>1,369,590</u>	<u>1,167,949</u>
Earnings from operations	123,912	116,493	354,068	327,225
Other income (expense):				
Interest income	3,008	780	6,280	1,574
Interest expense	(1,199)	(1,560)	(3,742)	(4,895)
Other, net	(2,849)	2,147	(6,918)	5,507
Total other income (expense)	<u>(1,040)</u>	<u>1,367</u>	<u>(4,380)</u>	<u>2,186</u>
Earnings before income tax expense	122,872	117,860	349,688	329,411
Income tax expense	16,821	11,030	45,521	42,546
Net earnings	106,051	106,830	304,167	286,865
Less: Net earnings attributable to non-controlling interests	15,323	14,520	50,504	41,025
Net earnings attributable to Skechers U.S.A., Inc.	<u>\$ 90,728</u>	<u>\$ 92,310</u>	<u>\$ 253,663</u>	<u>\$ 245,840</u>
Net earnings per share attributable to Skechers U.S.A., Inc.:				
Basic	<u>\$ 0.58</u>	<u>\$ 0.59</u>	<u>\$ 1.62</u>	<u>\$ 1.58</u>
Diluted	<u>\$ 0.58</u>	<u>\$ 0.59</u>	<u>\$ 1.62</u>	<u>\$ 1.57</u>
Weighted average shares used in calculating net earnings per share attributable to Skechers U.S.A., Inc.:				
Basic	<u>155,766</u>	<u>155,824</u>	<u>156,238</u>	<u>155,502</u>
Diluted	<u>156,298</u>	<u>156,741</u>	<u>156,981</u>	<u>156,276</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net earnings	\$ 106,051	\$ 106,830	\$ 304,167	\$ 286,865
Other comprehensive income, net of tax:				
(Loss) gain on foreign currency translation adjustment	(8,634)	4,713	(23,509)	11,870
Comprehensive income	97,417	111,543	280,658	298,735
Less: Comprehensive income attributable to non-controlling interests	11,487	15,326	42,385	44,313
Comprehensive income attributable to Skechers U.S.A., Inc.	<u>\$ 85,930</u>	<u>\$ 96,217</u>	<u>\$ 238,273</u>	<u>\$ 254,422</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net earnings	\$ 304,167	\$ 286,865
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	72,896	59,576
Amortization of other assets	8,364	10,474
Provision for bad debts and returns	27,975	13,397
Non-cash share-based compensation	23,588	21,737
Deferred income taxes	1,267	(4,694)
Loss (gain) on non-current assets	467	(1,614)
Net foreign currency adjustments	3,222	(7,431)
(Increase) decrease in assets:		
Receivables	(143,743)	(164,379)
Inventories	99,316	10,139
Prepaid expenses and other current assets	(30,856)	(9,819)
Other assets	(2,048)	(7,319)
Increase (decrease) in liabilities:		
Accounts payable	48,334	(25,118)
Accrued expenses and other long-term liabilities	(139)	(6,311)
Net cash provided by operating activities	<u>412,810</u>	<u>175,503</u>
Cash flows from investing activities:		
Capital expenditures	(97,309)	(102,163)
Intangible asset additions	—	(134)
Purchases of investments	(408,126)	(1,890)
Proceeds from sales and maturities of investments	247,158	284
Net cash used in investing activities	<u>(258,277)</u>	<u>(103,903)</u>
Cash flows from financing activities:		
Net proceeds from the issuances of common stock through the employee stock purchase plan	2,890	3,011
Payments on long-term debt	(1,381)	(1,336)
Proceeds from long-term debt	—	5,580
Proceeds from short-term borrowings	7,491	4,543
Payments for taxes related to net share settlement of equity awards	(11,402)	—
Repurchase of Class A common stock	(58,027)	—
Distributions to non-controlling interests of consolidated entity	(18,663)	(9,347)
Contributions from non-controlling interests of consolidated entity	—	46
Net cash provided by (used in) financing activities	<u>(79,092)</u>	<u>2,497</u>
Net increase in cash and cash equivalents	75,441	74,097
Effect of exchange rates on cash and cash equivalents	(9,101)	10,299
Cash and cash equivalents at beginning of the period	736,431	718,536
Cash and cash equivalents at end of the period	<u>\$ 802,771</u>	<u>\$ 802,932</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,585	\$ 4,754
Income taxes, net	72,020	48,305

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018 and 2017
(Unaudited)

(1) GENERAL

Basis of Presentation

The accompanying condensed consolidated financial statements of Skechers U.S.A., Inc. (the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”), for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include certain notes and financial presentations normally required under U.S. GAAP for complete financial reporting. The interim financial information is unaudited, but reflects all normal adjustments and accruals which are, in the opinion of management, considered necessary to provide a fair presentation for the interim periods presented. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

The results of operations for the nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2018.

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.

Fair Value of Financial Instruments

The accounting standard for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. This accounting standard established a fair value hierarchy, which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. The Company’s Level 1 non-derivative investments primarily include money market funds, U.S. Treasury securities, and actively traded mutual funds.
- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company’s Level 2 non-derivative investments primarily include corporate notes and bonds and U.S. Agency securities. The Company has one Level 2 derivative which is an interest rate swap related to the refinancing of its domestic distribution center (see below).
- Level 3 – Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability. The Company currently does not have any Level 3 assets or liabilities.

The carrying amount of the Company’s financial instruments, which principally include cash and cash equivalents, short-term investments, accounts receivable, long-term investments, accounts payable and accrued expenses approximates fair value because of the relatively short maturity of such instruments. The carrying amount of the Company’s short-term and long-term borrowings, which are considered Level 2 liabilities, 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 3). 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 September 30, 2018 and December 31, 2017, the interest rate swap was a Level 2 derivative and HF Logistics is responsible for any amounts related to the interest rate swap agreement.

Use of Estimates

The preparation of the condensed consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 "Revenue from Contracts with Customers," ("ASU 2014-09") 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 was January 1, 2018, and two methods of adoption were 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 January 1, 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 ASUs also require enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows. The Company adopted the new revenue standard effective January 1, 2018 using the modified retrospective method. The adoption of these standards did not have a material impact on the Company's condensed consolidated financial statements.

The Company recognizes revenue when control of the promised goods or services is transferred to its customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company derives income from the sale of footwear and royalties earned from licensing the Skechers brand. For North America, goods are shipped Free on Board ("FOB") shipping point directly from the Company's domestic distribution center in Rancho Belago, California. For international wholesale customers product is shipped FOB shipping point, (i) direct from the Company's distribution center in Liege, Belgium, (ii) to third-party distribution centers in Central America, South America and Asia, (iii) directly from third-party manufacturers to our other international customers. For our distributor sales, the goods are generally delivered directly from the independent factories to third-party distribution centers or to our distributors' freight forwarders on a Free Named Carrier ("FCA") basis. The Company recognizes revenue on wholesale sales upon shipment as that is when the customer obtains control of the promised goods. Related costs paid to third-party shipping companies are recorded as cost of sales and are accounted for as a fulfillment cost and not as a separate performance obligation. The Company generates retail revenues primarily from the sale of footwear to customers at retail locations or through the Company's websites. For our in-store sales, the Company recognizes revenue at the point of sale. For sales made through our websites, we recognize revenue upon shipment to the customer which is when the customer obtains control of the promised good. Sales and value added taxes collected from e-commerce or retail customers are excluded from reported revenues.

The Company records accounts receivable at the time of shipment when the Company's right to the consideration becomes unconditional. The Company typically extends credit terms to our wholesale customers based on their creditworthiness and generally does not receive advance payments. 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. Retail and e-commerce sales represent amounts due from credit card companies and are generally collected within a few days of the purchase. As such, the Company has determined that no allowance for doubtful accounts for retail and e-commerce sales is necessary.

The Company earns royalty income from its licensing arrangements which qualify as symbolic licenses rather than functional licenses. 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 is 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. The Company calculates and accrues estimated royalties based on the agreement terms and correspondence with the licensees regarding actual sales.

Judgments

The Company considered several factors in determining that control transfers to the customer upon shipment of products. These factors include that legal title transfers to the customer, the Company has a present right to payment, and the customer has assumed the risks and rewards of ownership at the time of shipment. The Company accrues a reserve for product returns at the time of sale based on our historical experience. The Company also accrues amounts for goods expected to be returned in salable condition. As of September 30, 2018 and December 31, 2017, the Company's sales returns reserve totaled \$42.6 million and \$43.4 million, respectively, and was included in accrued expenses and accounts receivable in the condensed consolidated balance sheets, respectively.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 "*Leases (Topic 842)*," ("ASU 2016-02"). ASU 2016-02 is intended to increase transparency and comparability among organizations relating to leases. Lessees will be required to recognize a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. The FASB retained a dual model for lease classification, requiring leases to be classified as finance or operating leases to determine recognition in the earnings statement and cash flows; however, substantially all leases will be required to be recognized on the balance sheet. The standards update will also require quantitative and qualitative disclosures regarding key information about leasing arrangements. The standards update is effective using a modified retrospective approach for fiscal years and interim periods beginning after December 15, 2018, with early adoption permitted. The Company will adopt the standard on January 1, 2019. As originally issued, the standards update requires application at the beginning of the earliest comparative period presented at the time of adoption. In July 2018, the FASB issued ASU No. 2018-10, "*Codification Improvements to Topic 842, Leases*," ("ASU 2018-10"). This ASU makes various targeted amendments to the leasing standard and the Company is evaluating this ASU in connection with adoption of the standard. In July 2018, the FASB issued ASU 2018-11, "*Leases (Topic 842): Targeted Improvements*," ("ASU No. 2018-11"). This standard allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The standard also provides for certain practical expedients. The Company plans to elect this optional transition method. The Company is still assessing the impact of the new standard on its consolidated financial statements and its internal controls process, but anticipates a material 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 of the Company's lease obligations. The earnings statement recognition of lease expense is expected to be similar to the Company's current methodology.

In February 2018, the FASB issued ASU No. 2018-02, "*Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*," ("ASU 2018-02"). The standard permits a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. ASU 2018-02 is effective for the Company's annual and interim reporting periods beginning December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of ASU 2018-02; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13 "*Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*," ("ASU No. 2018-13"), which modifies the disclosure requirements on fair value measurements, including the consideration of costs and benefits. ASU 2018-13 is effective for all entities for fiscal years

beginning after December 15, 2019, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company is currently evaluating the impact of ASU 2018-13; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 “Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract,” (“ASU 2018-15”). ASU 2018-15 requires that issuers follow the internal-use software guidance in Accounting Standards Codification (ASC) 350-40 to determine which costs to capitalize as assets or expense as incurred. The ASC 350-40 guidance requires that certain costs incurred during the application development stage be capitalized and other costs incurred during the preliminary project and post-implementation stages be expensed as they are incurred. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2018-15; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its condensed consolidated financial statements.

(2) CASH, CASH EQUIVALENTS, SHORT-TERM AND LONG-TERM INVESTMENTS

The Company’s investments consists of mutual funds held in the company’s deferred compensation plan and classified as trading securities, U.S. Treasury securities, corporate notes and bonds and U.S. Agency securities, that the Company has the intent and ability to hold to maturity and therefore, are classified as held-to-maturity. The following tables show the Company’s cash, cash equivalents, short-term and long-term investments by significant investment category as of September 30, 2018 and December 31, 2017 (in thousands):

September 30, 2018							
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	\$ 628,753	\$ -	\$ -	\$ 628,753	\$ 628,753	\$ -	\$ -
Level 1:							
Money market funds	159,815	-	-	159,815	159,815	-	-
U.S. Treasury securities	14,203	-	-	14,203	14,203	-	-
Mutual funds	21,308	-	-	21,308	-	-	21,308
Total level 1	195,326	-	-	195,326	174,018	-	21,308
Level 2:							
Corporate notes and bonds	150,776	-	-	150,776	-	85,227	65,549
U.S. Agency securities	6,279	-	-	6,279	-	2,050	4,229
Total level 2	157,055	-	-	157,055	-	87,277	69,778
TOTAL	\$ 981,134	\$ -	\$ -	\$ 981,134	\$ 802,771	\$ 87,277	\$ 91,086

December 31, 2017							
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	\$ 736,431	\$ -	\$ -	\$ 736,431	\$ 736,431	\$ -	\$ -
Level 1:							
Mutual funds	17,396	-	-	17,396	-	-	17,396
TOTAL	\$ 753,827	\$ -	\$ -	\$ 753,827	\$ 736,431	\$ -	\$ 17,396

The Company may sell certain of its investments prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The maturities of the Company’s long-term investments are typically less than two years.

The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy generally requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates and the Company’s intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment’s cost basis. As of September 30, 2018, the Company does not consider any of its investments to be other-than-temporarily impaired.

(3) LINE OF CREDIT, SHORT-TERM AND LONG-TERM BORROWINGS

The Company had \$2.9 million and \$4.4 million of outstanding letters of credit as of September 30, 2018 and December 31, 2017, respectively, and approximately \$12.7 million and \$8.0 million in short-term borrowings as of September 30, 2018 and December 31, 2017, respectively.

Long-term borrowings at September 30, 2018 and December 31, 2017 are as follows (in thousands):

	2018	2017
Note payable to banks, due in monthly installments of \$348 (includes principal and interest), variable-rate interest at 4.24% per annum, secured by property, balloon payment of \$62,843 due August 2020	\$ 65,511	\$ 66,604
Note payable to Luen Thai Enterprise, Ltd., balloon payment of \$5,725 due January 2021	5,725	5,745
Note payable to TCF Equipment Finance, Inc., due in monthly installments of \$31 (includes principal and interest), fixed-rate interest at 5.24% per annum, due July 2019	298	555
Loan payable to a bank, variable-rate interest only at 4.28% per annum, due September 2023	2,829	—
Subtotal	74,363	72,904
Less current installments	4,581	1,801
Total long-term borrowings	\$ 69,782	\$ 71,103

The Company's long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. The Company is in compliance with the covenants of its long-term borrowings as of September 30, 2018.

On September 29, 2018, through a subsidiary of the Company's Chinese joint venture ("the Subsidiary"), the Company entered into a 700 million yuan loan agreement with China Construction Bank Corporation ("the China DC Loan Agreement"). The proceeds from the China DC Loan Agreement will be used to finance the construction of the Company's distribution center in China. Interest will be paid quarterly. The interest rate will float and be calculated at a reference rate provided by the People's Bank of China. The interest rate may increase or decrease over the life of the loan, and will be evaluated every 12 months. The principal of the loan will be repaid in semi-annual installments, beginning in 2021, of variable amounts as specified in the China DC Loan Agreement. The China DC Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that limit the ability of the Subsidiary to, among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Loan Agreement, and adjust the capital stock structure of the Subsidiary. The China DC Loan Agreement matures on September 28, 2023. The obligations of the Subsidiary under the China DC Loan Agreement are jointly and severally guaranteed by the Company's Chinese joint venture. As of September 30, 2018 there was \$2.8 million outstanding under this credit facility, which is classified as short-term borrowings in the Company's condensed consolidated balance sheets.

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 of 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 included in other assets in the condensed consolidated balance sheets, and are being amortized to interest expense over the five-year life of the facility. As of September 30, 2018 and December 31, 2017, there was \$0.1 million outstanding under the Company's credit facilities, classified as short-term borrowings in the Company's condensed consolidated balance sheets. The remaining balance in short-term borrowings, as of September 30, 2018, is related to the Company's international operations.

On April 30, 2010, HF Logistics-SKX, LLC (the "JV"), through its subsidiary 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, and 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 its joint-venture partner 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 prepayment on the Original Loan based on the Company's 50% equity interest in the JV. The prepayment 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 was used by the JV, through HF-T1, to (i) refinance all amounts owed on the Original Loan after taking into account the prepayment 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 of the New Loan at 4.08% per annum. Pursuant to the terms of the JV, HF is responsible for the related interest expense payments on the New Loan, and any amounts related to the Swap Agreement. The full amount of interest expense paid related to the New Loan has been included in non-controlling interests in the condensed consolidated balance sheets. 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.

(4) NON-CONTROLLING INTERESTS

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Company's products or to construct the Company's domestic distribution facility. These joint ventures are variable interest entities ("VIEs") under 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 for its VIEs that the Company is the primary beneficiary because it 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 VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Accordingly, the Company includes the assets and liabilities and results of operations of these entities in its condensed consolidated financial statements, even though the Company may not hold a majority equity interest. There have been no changes during 2018 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.

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

	September 30, 2018	December 31, 2017
<u>HF Logistics-SKX, LLC</u>		
Current assets	\$ 2,629	\$ 1,540
Non-current assets	99,463	103,407
Total assets	<u>\$ 102,092</u>	<u>\$ 104,947</u>
Current liabilities	\$ 3,196	\$ 2,718
Non-current liabilities	65,065	66,367
Total liabilities	<u>\$ 68,261</u>	<u>\$ 69,085</u>
	September 30, 2018	December 31, 2017
<u>Distribution joint ventures ⁽¹⁾</u>		
Current assets	\$ 504,470	\$ 389,687
Non-current assets	101,292	90,972
Total assets	<u>\$ 605,762</u>	<u>\$ 480,659</u>
Current liabilities	\$ 268,543	\$ 188,700
Non-current liabilities	4,453	9,201
Total liabilities	<u>\$ 272,996</u>	<u>\$ 197,901</u>

(1) Distribution joint ventures include Skechers Footwear Ltd. (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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net earnings attributable to non-controlling interests	\$ 15,323	\$ 14,520	\$ 50,504	\$ 41,025
Distributions to:				
HF Logistics-SKX, LLC	1,085	1,048	3,292	3,091
Skechers China Limited	7,270	—	12,660	4,710
Skechers Retail India Private Limited	—	—	68	—
Skechers Southeast Asia Limited	2,025	1,347	2,025	1,347
Skechers Hong Kong Limited	618	199	618	199
Contributions from:				
Skechers Footwear Ltd. (Israel)	—	—	—	46

(5) STOCKHOLDERS' EQUITY

During the three months ended September 30, 2018, no shares of Class B Common stock were converted into shares of Class A common stock. During the nine months ended September 30, 2018, 381,876 shares of Class B common stock were converted into shares of Class A common stock. During the three and nine months ended September 30, 2017, no shares of Class B common stock were converted into shares of Class A common stock.

The following table reconciles equity attributable to non-controlling interests (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Non-controlling interests, beginning of period	\$ 119,147	\$ 81,881
Net earnings	50,504	41,025
Foreign currency translation adjustment	(8,120)	3,288
Capital contributions	—	46
Capital distributions	(18,663)	(9,347)
Non-controlling interests, end of period	<u>\$ 142,868</u>	<u>\$ 116,893</u>

(6) SHARE REPURCHASE PROGRAM

On February 6, 2018, the Company's Board of Directors authorized a share repurchase program (the "Share Repurchase Program"), pursuant to which the Company may, from time to time, purchase shares of its Class A common stock, par value \$0.001 per share ("Class A common stock"), for an aggregate repurchase price not to exceed \$150.0 million. As of September 30, 2018, there was \$92.0 million remaining to repurchase shares under the Share Repurchase Program. The Share Repurchase Program expires on February 6, 2021. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Act of 1934, as amended, subject to market conditions, applicable legal requirements and other relevant factors. The Share Repurchase Program does not obligate the Company to acquire any particular amount of shares of Class A common stock and the program may be suspended or discontinued at any time.

The following table provides a summary of the Company's stock repurchase activities during the three and nine months ended September 30, 2018:

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Shares repurchased	1,406,591	1,993,163
Average cost per share	\$ 28.46	\$ 29.11
Total cost of shares repurchased (in thousands):	\$ 40,028	\$ 58,027

(7) EARNINGS PER SHARE

Basic earnings per share represent 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 basic earnings per share (in thousands, except per share amounts):

Basic earnings per share	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net earnings attributable to Skechers U.S.A., Inc.	\$ 90,728	\$ 92,310	\$ 253,663	\$ 245,840
Weighted average common shares outstanding	155,766	155,824	156,238	155,502
Basic earnings per share attributable to Skechers U.S.A., Inc.	\$ 0.58	\$ 0.59	\$ 1.62	\$ 1.58

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

Diluted earnings per share	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net earnings attributable to Skechers U.S.A., Inc.	\$ 90,728	\$ 92,310	\$ 253,663	\$ 245,840
Weighted average common shares outstanding	155,766	155,824	156,238	155,502
Dilutive effect of nonvested shares	532	917	743	774
Weighted average common shares outstanding	<u>156,298</u>	<u>156,741</u>	<u>156,981</u>	<u>156,276</u>
Diluted earnings per share attributable to Skechers U.S.A., Inc.	\$ 0.58	\$ 0.59	\$ 1.62	\$ 1.57

There were 407,267 and 335,885 shares excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2018 because they are antidilutive. There were 25,556 and 51,470 shares excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2017 because they are antidilutive.

(8) STOCK COMPENSATION

(a) Incentive Award Plan

On April 17, 2017, the Company's Board of Directors adopted the 2017 Incentive Award Plan (the "2017 Plan"), which became effective upon approval by the Company's stockholders on May 23, 2017. The 2017 Plan replaced and superseded in its entirety the 2007 Incentive Award Plan (the "2007 Plan"), which expired pursuant to its terms on May 24, 2017. A total of 10,000,000 shares of Class A Common Stock are reserved for issuance under the 2017 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 2017 Plan is administered by the Company's Board of Directors with respect to awards to non-employee directors and by the Company's Compensation Committee with respect to other eligible participants.

For stock-based awards, the Company recognized compensation expense based on the grant date fair value. Share-based compensation expense was \$7.6 million and \$7.5 million for the three months ended September 30, 2018 and 2017, respectively. Share-based compensation expense was \$23.6 million and \$21.7 million for the nine months ended September 30, 2018 and 2017, respectively. During the three and nine months ended September 30, 2018, the Company redeemed 7,899 and 308,155 shares of Class A Common Stock for \$0.2 million and \$11.4 million to satisfy employee tax withholding requirements. No shares were redeemed during the three and nine months ended September 30, 2017.

A summary of the status and changes of the Company's nonvested shares related to the 2007 Plan and the 2017 Plan, as of and for the nine months ended September 30, 2018 is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2017	2,303,557	\$ 26.25
Granted	1,798,500	38.14
Vested	(820,283)	22.63
Cancelled	(121,333)	29.56
Nonvested at September 30, 2018	<u>3,160,441</u>	33.82

As of September 30, 2018, there was \$82.4 million of unrecognized compensation cost related to nonvested common shares. The cost is expected to be amortized over a weighted average period of 2.8 years.

(b) Stock Purchase Plan

On April 17, 2017, the Company's Board of Directors adopted the 2018 Employee Stock Purchase Plan (the "2018 ESPP"), which the Company's stockholders approved on May 23, 2017. The 2018 Employee Stock Purchase Plan provides eligible employees of the Company and its subsidiaries with the opportunity to purchase shares of the Company's Class A Common Stock at a purchase price equal to 85% of the Class A Common Stock's fair market value on the first trading day or last trading day of each purchase period, whichever is lower. The 2018 ESPP generally provides for two six-month purchase periods every twelve months: June 1 through November 30 and December 1 through May 31, except that the initial purchase period under the 2018 ESPP had a duration of five months, commencing on January 1, 2018 and ending on May 31, 2018. Eligible employees participating in the 2018 ESPP will, for a purchase period, be able to invest up to 15% of their compensation through payroll deductions during each purchase period. A total of 5,000,000 shares of Class A Common Stock are available for issuance under the 2018 ESPP.

(9) INCOME TAXES

Income tax expense and the effective tax rate for the three and nine months ended September 30, 2018 and 2017 were as follows (dollar amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Income tax expense	\$ 16,821	\$ 11,030	\$ 45,521	\$ 42,546
Effective tax rate	13.7%	9.4%	13.0%	12.9%

The tax provisions for the three and nine months ended September 30, 2018 and 2017 were computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. The Company estimates its effective tax rate to be between 13% to 15% for 2018, which implies a fourth quarter effective tax rate of between 17% and 20%. The Company's tax rate is subject to management's quarterly review and revision, as necessary.

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 foreign jurisdictions in which the Company has operations, the applicable statutory rates range from 0% to 34%, which is on average significantly lower than the U.S. federal and state combined statutory rate of approximately 26%. Due to the enactment of Tax Cuts and Jobs Act ("the Tax Act") in December 2017, the Company is subject to a tax on global intangible low-taxed income ("GILTI"). GILTI is a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. Companies subject to GILTI have the option to account for the GILTI tax as a period cost if and when incurred, or to recognize deferred taxes for temporary differences including outside basis differences expected to reverse as GILTI. The Company has elected to account for GILTI as a period cost, and therefore has included GILTI expense in its effective tax rate calculation for the three and nine months ended September 30, 2018.

The U.S. Securities and Exchange Commission (“SEC”) staff issued Staff Accounting Bulletin 118, (“SAB 118”), which provides guidance on accounting for certain tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification 740 (“ASC 740”). For the nine months ended September 30, 2018, the Company obtained additional information which reduced the Company’s provisional accounting for certain tax effects of the Tax Act by \$10.9 million, from \$99.9 million as reported at December 31, 2017, to \$89.0 million at September 30, 2018. Any subsequent adjustment to certain accounting for the tax effects of the Tax Act will be recorded to current tax expense during the quarter of 2018 when the analysis is completed.

For both the three months and nine months ended September 30, 2018, the increase in the effective tax rate was due to increased U.S. tax on foreign earnings resulting from changes in U.S. tax law under the Tax Act.

As of September 30, 2018, the Company had approximately \$802.8 million in cash and cash equivalents, of which \$405.0 million, or 50.5%, was held outside the U.S. Of the \$405.0 million held by the Company’s non-U.S. subsidiaries, approximately \$235.3 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 condensed consolidated financial statements as of September 30, 2018.

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. However, in anticipation of the needs of the Company’s share repurchase program and the need to provide payment of the Company’s provisional Transition Tax liability, the Company may repatriate certain funds held outside the U.S. for which all applicable U.S. and non-U.S. tax has been fully provided as of September 30, 2018. 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 the Company has designated as indefinitely reinvested outside the U.S., the amount repatriated would not be subject to U.S. income taxes but may be subject to applicable non-U.S. income and withholding taxes.

In October 2016, the FASB issued ASU No. 2016-16, “*Accounting for Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory*” (“ASU 2016-16”). 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 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. Effective January 1, 2018, the Company adopted ASU 2016-16. The adoption of ASU 2016-16 did not have a material impact on its condensed consolidated financial statements.

(10) BUSINESS AND CREDIT CONCENTRATIONS

The Company generates sales in the United States; however, several of its products are sold into various foreign countries, which subjects the Company to the risks of doing business abroad. In addition, the Company operates in the footwear industry, and its business depends on the general economic environment and levels of consumer spending. Changes in the marketplace may significantly affect management’s estimates and the Company’s performance. Management 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, were \$204.2 million and \$206.1 million before allowances for bad debts, sales returns and chargebacks at September 30, 2018 and December 31, 2017, respectively. Foreign accounts receivable, which in some cases are collateralized by letters of credit, were \$325.3 million and \$251.0 million before allowance for bad debts, sales returns and chargebacks at September 30, 2018 and December 31, 2017, respectively. The Company’s credit losses attributable to write-offs for the three months ended September 30, 2018 and 2017 were \$2.2 million and \$5.7 million, respectively. The Company’s credit losses attributable to write-offs for the nine months ended September 30, 2018 and 2017 were \$6.4 million and \$7.9 million, respectively.

Assets located outside the U.S. consist primarily of cash, accounts receivable, inventory, property, plant and equipment, and other assets. Net assets held outside the United States were \$1.443 billion and \$1.273 billion at September 30, 2018 and December 31, 2017, respectively.

The Company’s net sales to its five largest customers accounted for approximately 10.6% and 11.4% of total net sales for the three months ended September 30, 2018 and 2017, respectively. The Company’s net sales to its five largest customers accounted for approximately 10.5% and 12.5% of total net sales for the nine months ended September 30, 2018 and 2017, respectively.

The Company's top five manufacturers produced the following, as a percentage of total production, for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Manufacturer #1	11.1 %	17.0 %	11.3 %	19.8 %
Manufacturer #2	10.1 %	10.4 %	10.7 %	10.8 %
Manufacturer #3	6.8 %	9.8 %	9.1 %	9.0 %
Manufacturer #4	6.7 %	5.6 %	5.4 %	5.9 %
Manufacturer #5	5.6 %	5.1 %	5.4 %	4.3 %
	<u>40.3 %</u>	<u>47.9 %</u>	<u>41.9 %</u>	<u>49.8 %</u>

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, tariffs 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.

(11) 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 profit. 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, identifiable assets and additions to property and equipment for the domestic wholesale, international wholesale, retail sales segments on a combined basis were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales:				
Domestic wholesale	\$ 285,406	\$ 294,127	\$ 991,658	\$ 993,664
International wholesale	531,123	475,177	1,573,955	1,323,688
Retail	359,866	325,525	995,657	876,219
Total	<u>\$ 1,176,395</u>	<u>\$ 1,094,829</u>	<u>\$ 3,561,270</u>	<u>\$ 3,193,571</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Gross profit:				
Domestic wholesale	\$ 110,572	\$ 110,693	\$ 372,166	\$ 376,502
International wholesale	240,056	219,260	752,336	594,898
Retail	213,238	190,034	583,424	513,406
Total	<u>\$ 563,866</u>	<u>\$ 519,987</u>	<u>\$ 1,707,926</u>	<u>\$ 1,484,806</u>

	September 30,	December 31,
	2018	2017
Identifiable assets:		
Domestic wholesale	\$ 1,340,561	\$ 1,259,119
International wholesale	1,262,200	1,116,928
Retail	401,714	359,035
Total	<u>\$ 3,004,475</u>	<u>\$ 2,735,082</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Additions to property, plant and equipment:				
Domestic wholesale	\$ 10,654	\$ 5,418	\$ 28,320	\$ 8,699
International wholesale	13,711	14,461	31,118	45,884
Retail	12,126	5,782	37,871	47,580
Total	\$ 36,491	\$ 25,661	\$ 97,309	\$ 102,163

Geographic Information:

The following summarizes the Company's operations in different geographic areas for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Sales (1):				
United States	\$ 523,281	\$ 514,235	\$ 1,648,642	\$ 1,595,078
Canada	44,646	46,979	146,080	133,362
Other international (2)	608,468	533,615	1,766,548	1,465,131
Total	\$ 1,176,395	\$ 1,094,829	\$ 3,561,270	\$ 3,193,571

	September 30, 2018	December 31, 2017
Property, plant and equipment, net:		
United States	\$ 392,891	\$ 382,426
Canada	9,730	9,888
Other international (2)	162,774	149,287
Total	\$ 565,395	\$ 541,601

(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 regions and in some cases the neighboring regions. The Company has joint ventures in Asia that generate net sales from those regions. 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 condensed consolidated financial statements and are not included as part of the external net sales reported in different geographic areas.*

(2) *Other international includes 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.

(12) RELATED PARTY TRANSACTIONS

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, are also officers and directors of the Foundation. During the three months ended September 30, 2018 and 2017, the Company made contributions of \$251,000 and \$250,000 respectively, to the Foundation. During the nine months ended September 30, 2018 and 2017, the Company made contributions of \$751,000 and \$750,000 to the Foundation respectively.

(13) LITIGATION

In accordance with U.S. GAAP, the Company records a liability in its condensed 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 condensed consolidated financial statements as of September 30, 2018, nor is it possible to estimate what litigation-related costs will be in the future; however, the Company believes that the likelihood that claims related to litigation would result in a material loss to the Company, either individually or in the aggregate, is remote.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and Notes thereto in Item 1 of this report and our annual report on Form 10-K for the year ended December 31, 2017.

We intend for this discussion to provide the reader with information that will assist in understanding our condensed consolidated financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our condensed consolidated financial statements. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect the financial condition and results of operations of our Company as a whole.

This quarterly report on Form 10-Q may contain forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which can be identified by the use of forward-looking language such as “intend,” “may,” “will,” “believe,” “expect,” “anticipate” or other comparable terms. 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 future performance. Factors that might cause or contribute to such differences include:

- global economic, political and market conditions including the challenging consumer retail market in the United States;
- 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; and
- other factors referenced or incorporated by reference in our annual report on Form 10-K for the year ended December 31, 2017 under the captions “Item 1A: Risk Factors” and “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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 quarterly 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.

FINANCIAL OVERVIEW

Our net sales for the three months ended September 30, 2018 were \$1.176 billion, an increase of \$81.6 million, or 7.5%, as compared to net sales of \$1.095 billion for the three months ended September 30, 2017. This increase was primarily attributable to increased sales from our international wholesale and global retail businesses, and was partially offset by a decrease in our domestic wholesale segment. Gross margins increased to 47.9% for the three months ended September 30, 2018 from 47.5% for the same period in the prior year primarily due to higher domestic wholesale and retail gross margins. Net earnings attributable to Skechers U.S.A., Inc. were \$90.7 million for the three months ended September 30, 2018, a decrease of \$1.6 million, or 1.7%, compared to net earnings of \$92.3 million in the prior-year period. Diluted net earnings per share attributable to Skechers U.S.A., Inc. for the three

months ended September 30, 2018 were \$0.58, which reflected a 1.7% decrease from the \$0.59 diluted net earnings per share reported in the same prior-year period. The decrease in net earnings and diluted net earnings per share attributable to Skechers U.S.A., Inc. for the three months ended September 30, 2018 was primarily due to increased general and administrative expenses of \$37.8 million, of which \$7.5 million related directly to support our growth in China, and a higher effective tax rate all of which were partially offset by increased net sales and higher gross margins. The results of operations for the three months ended September 30, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2018.

We have three reportable segments – domestic wholesale sales, international wholesale sales, and retail sales, which includes e-commerce sales. We evaluate segment performance based primarily on net sales and gross margins.

Revenue by segment as a percentage of net sales was as follows:

	Three Months Ended September 30,	
	2018	2017
Percentage of revenues by segment:		
Domestic wholesale	24.3 %	26.9 %
International wholesale	45.1 %	43.4 %
Retail	30.6 %	29.7 %
Total	<u>100.0 %</u>	<u>100.0 %</u>

As of September 30, 2018, we owned and operated 681 stores, which included 465 domestic retail stores and 216 international retail stores. We have established our presence in what we believe to be most of the major domestic retail markets. During the first nine months of 2018, we opened one domestic concept store, one domestic outlet store, 18 domestic warehouse stores, 12 international concept stores, seven international outlet stores, and one international warehouse store. In addition, we closed four domestic concept stores. We review all of our stores for impairment annually, or more frequently if events occur that may be an indicator of impairment, and we carefully review our under-performing stores and consider the potential for non-renewal of leases upon completion of the current term of the applicable lease.

During the remainder of 2018 and in 2019, we intend to focus on: (i) continuing to develop new lifestyle and performance product at affordable prices to increase product count for all customers, (ii) continuing to manage our inventory and expenses to be in line with expected sales levels, (iii) growing our international business, (iv) strategically expanding our global retail distribution channel by opening another 10 to 15 Company-owned retail stores during the remainder of the year, and (v) expanding our product distribution infrastructure in China.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected information from our results of operations (in thousands) and as a percentage of net sales:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
Net sales	\$1,176,395	100.0 %	\$1,094,829	100.0 %	\$3,561,270	100.0 %	\$3,193,571	100.0 %
Cost of sales	612,529	52.1	574,842	52.5	1,853,344	52.0	1,708,765	53.5
Gross profit	563,866	47.9	519,987	47.5	1,707,926	48.0	1,484,806	46.5
Royalty income	4,860	0.4	2,917	0.3	15,732	0.4	10,368	0.3
	568,726	48.3	522,904	47.8	1,723,658	48.4	1,495,174	46.8
Operating expenses:								
Selling	90,138	7.7	89,559	8.2	288,606	8.1	263,318	8.2
General and administrative	354,676	30.1	316,852	28.9	1,080,984	30.4	904,631	28.4
	444,814	37.8	406,411	37.1	1,369,590	38.5	1,167,949	36.6
Earnings from operations	123,912	10.5	116,493	10.7	354,068	9.9	327,225	10.2
Interest income	3,008	0.3	780	0.1	6,280	0.2	1,574	—
Interest expense	(1,199)	(0.1)	(1,560)	(0.1)	(3,742)	(0.1)	(4,895)	(0.1)
Other, net	(2,849)	(0.3)	2,147	0.1	(6,918)	(0.2)	5,507	0.2
Earnings before income tax expense	122,872	10.4	117,860	10.8	349,688	9.8	329,411	10.3
Income tax expense	16,821	1.4	11,030	1.0	45,521	1.3	42,546	1.3
Net earnings	106,051	9.0	106,830	9.8	304,167	8.5	286,865	9.0
Less: Net earnings attributable to non-controlling interests	15,323	1.3	14,520	1.4	50,504	1.4	41,025	1.3
Net earnings attributable to Skechers U.S.A., Inc.	<u>\$ 90,728</u>	<u>7.7 %</u>	<u>\$ 92,310</u>	<u>8.4 %</u>	<u>\$ 253,663</u>	<u>7.1 %</u>	<u>\$ 245,840</u>	<u>7.7 %</u>

THREE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2017

Net sales

Net sales for the three months ended September 30, 2018 were \$1.176 billion, an increase of \$81.6 million, or 7.5%, as compared to net sales of \$1.095 billion for the three months ended September 30, 2017. The increase in net sales came from our international wholesale and global retail businesses from our Women's and Men's Sport, Men's U.S.A., You by Skechers, and Cali divisions partially offset by a decrease in our domestic wholesale segment.

Our domestic wholesale net sales decreased \$8.7 million, or 3.0%, to \$285.4 million for the three months ended September 30, 2018 from \$294.1 million for the three months ended September 30, 2017. The decrease in the domestic wholesale segment's net sales was primarily the result of a 4.4% decrease in average price per pair offset by a 1.5% unit sales volume increase to 12.8 million pairs for the three months ended September 30, 2018 from 12.6 million pairs for the same period in 2017. The decrease in our domestic wholesale segment was also attributable to decreased sales to the off-price channel. The average selling price per pair within the domestic wholesale decreased to \$22.24 per pair for the three months ended September 30, 2018 compared to \$23.27 per pair for the same period last year, which was primarily attributable to a product sales mix with lower average selling prices.

Our international wholesale segment sales increased \$55.9 million, or 11.8%, to \$531.1 million for the three months ended September 30, 2018 compared to sales of \$475.2 million for the three months ended September 30, 2017. Our international wholesale sales consist of direct sales – those 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 subsidiary sales increased \$45.8 million, or 11.8%, to \$434.3 million for the three months ended September 30, 2018 compared to net sales of \$388.5 million for the three months ended September 30, 2017. The largest sales increases during the quarter came from several of our European subsidiaries and our joint ventures in China and India, primarily due to increased sales of product from on-line channels. Our distributor sales increased \$10.1 million to \$96.8 million for the three months ended September 30, 2018, an 11.6% increase from sales of \$86.7 million for the three months ended September 30, 2017. The increase was primarily due to increased sales to our distributors in the United Arab Emirates ("U.A.E."), Russia and Turkey.

Our retail segment sales increased \$34.4 million to \$359.9 million for the three months ended September 30, 2018, a 10.5% increase over sales of \$325.5 million for the three months ended September 30, 2017. The increase in retail sales was primarily attributable to operating an additional net 58 stores and increased comparable store sales of 1.9% resulting from increased sales across several key divisions, including Women's and Men's Sport, Men's USA and Skecher Street divisions. During the third quarter of 2018, we opened one domestic outlet store, five domestic warehouse stores, five international concept stores, one international outlet store, and one international warehouse store. For the three months ended September 30, 2018, our domestic retail sales increased 8.1% compared to the same period in 2017, which was primarily attributable to positive comparable domestic store sales of 3.0% and a net increase of 16 domestic stores. Our international retail store sales increased 15.7% compared to the same period in 2017, which was primarily attributable to a net increase of 20 international stores compared to the prior period.

Gross profit

Gross profit for the three months ended September 30, 2018 increased \$43.9 million, or 8.4%, to \$563.9 million as compared to \$520.0 million for the three months ended September 30, 2017. Gross profit as a percentage of net sales, or gross margins, increased to 47.9% for three-month period ended September 30, 2018 from 47.5% for the same period in the prior year. Our domestic wholesale segment gross profit decreased \$0.1 million to \$110.6 million for the three months ended September 30, 2018 as compared to \$110.7 million for the three months ended September 30, 2017, primarily due to lower sales partially offset by higher gross margins. Domestic wholesale margins increased to 38.7% for the three months ended September 30, 2018 from 37.6% for the three months ended September 30, 2017 primarily from product sales mix with higher average gross margins.

Gross profit for our international wholesale segment increased \$20.8 million, or 9.5%, to \$240.1 million for the three months ended September 30, 2018 as compared to \$219.3 million for the three months ended September 30, 2017. International wholesale gross margins were 45.2% for the three months ended September 30, 2018 compared to 46.1% for the three months ended September 30, 2017. Gross margins for our direct subsidiary sales decreased to 49.8% for the three months ended September 30, 2018 compared to 50.6% for the three months ended September 30, 2017. The decrease in international wholesale gross margins was primarily attributable a negative foreign currency exchange rates from a stronger U.S. dollar. Gross margins for our distributor sales were 24.5% for the three months ended September 30, 2018 compared to 26.3% for the three months ended September 30, 2017, which was due to a product sales mix with lower average gross margins.

Gross profit for our retail segment increased \$23.2 million, or 12.2%, to \$213.2 million for the three months ended September 30, 2018 as compared to \$190.0 million for the three months ended September 30, 2017. Gross margins for all our company-owned domestic and international stores and our e-commerce business were 59.3% for the three months ended September 30, 2018 as compared to 58.4% for the three months ended September 30, 2017. Gross margins for our domestic stores, which includes e-commerce, were 62.8% and 60.6% for the three months ended September 30, 2018 and 2017, respectively. The increase in domestic retail gross margins was primarily due to less discounting. Gross margins for our international stores were 52.3% for the three months ended September 30, 2018 as compared to 53.8% for the three months ended September 30, 2017. The decrease in international retail gross margins was primarily attributable to negative foreign currency exchange rates from a stronger U.S. dollar.

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 increased by \$0.5 million, or 0.6%, to \$90.1 million for the three months ended September 30, 2018 from \$89.6 million for the three months ended September 30, 2017. As a percentage of net sales, selling expenses were 7.7% and 8.2% for the three months ended September 30, 2018 and 2017, respectively.

Selling expenses consist primarily of the following: sales representative sample costs, sales commissions, trade shows, advertising and promotional costs, which may include television, print ads, ad production costs and point-of-purchase (POP) costs. Selling expenses are not allocated to segments.

General and administrative expenses

General and administrative expenses increased by \$37.8 million, or 11.9%, to \$354.7 million for the three months ended September 30, 2018 from \$316.9 million for the three months ended September 30, 2017. As a percentage of sales, general and administrative expenses were 30.1% and 28.9% for the three months ended September 30, 2018 and 2017, respectively. The \$37.8 million increase in general and administrative expenses was primarily attributable to approximately \$13.4 million related to supporting our international wholesale operations due to increased sales volumes and expansion, and \$13.3 million of additional operating expenses attributable to opening and operating 20 new international retail stores and 16 new domestic retail stores, since September 30, 2017. In addition, the expenses related to our distribution network, including purchasing, receiving, inspecting, allocating, warehousing and packaging of our products, increased \$2.1 million to \$61.5 million for the three months ended September 30, 2018 as compared to \$59.4 million for the same period in the prior year. The increase in warehousing costs was primarily due to increased sales volumes worldwide.

General and administrative expenses consist primarily of the following: salaries, wages, related taxes and 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 associated with our distribution centers, professional fees related to legal, consulting and accounting, insurance, depreciation and amortization, and expenses related to our distribution network, which includes the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging our products. These general and administrative expenses are not allocated to segments.

Other income (expense)

Interest income increased \$2.2 million to \$3.0 million for the three months ended September 30, 2018, as compared to \$0.8 million at September 30, 2017. The increase in interest income was due primarily due to increased interest rates and higher average cash and investment balances as compared to the prior year period. Interest expense decreased by \$0.4 million to \$1.2 million for the three months ended September 30, 2018 compared to \$1.6 million for the same period in 2017. Interest expense decreased primarily due to reduced interest paid to our foreign manufacturers. Other expense increased \$4.9 million to \$2.8 million for the three months ended September 30, 2018 as compared to other income of \$2.1 million for the same period in 2017. The increase in other expense was primarily attributable to foreign currency exchange loss of \$2.0 million for the three months ended September 30, 2018, as compared to a foreign currency exchange gain of \$1.7 million for the three months ended September 30, 2017. This increase foreign currency exchange loss was primarily attributable to the impact of a stronger U.S. dollar on our intercompany investments in our non-U.S. subsidiaries.

Income taxes

Income tax expense and the effective tax rate for the three months ended September 30, 2018 and 2017 were as follows (dollar amounts in thousands):

	Three Months Ended September 30,	
	2018	2017
Income tax expense	\$ 16,821	\$ 11,030
Effective tax rate	13.7%	9.4%

The tax provisions for the three months ended September 30, 2018 and 2017 were computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. We estimate our effective annual tax rate to be between 13% and 15% for the full year, which implies a fourth quarter effective rate of between 17% and 20%. Our effective tax rate is subject to management's quarterly review and revision, as necessary.

Our provision for income tax expense and effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (loss) before income taxes. In the foreign jurisdictions in which we have operations, the applicable statutory rates range from 0% to 34%, which on average are generally significantly lower than the U.S. federal and state combined statutory rate of approximately 26%.

For the three months ended September 30, 2018, the increase in the effective tax rate was primarily due to increased U.S. tax on foreign earnings resulting from changes in U.S. tax law under the Tax Act.

As of September 30, 2018, we had approximately \$802.8 million in cash and cash equivalents, of which \$405.0 million, or 50.5%, was held outside the U.S. Of the \$405.0 million held by our non-U.S. subsidiaries, approximately \$235.3 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 condensed consolidated financial statements as of September 30, 2018.

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. However, in anticipation of the needs of our share repurchase program and the need to provide payment of our provisional Transition Tax liability, we may begin repatriating certain funds held outside the U.S. for which all applicable U.S. and non-U.S. tax has been fully provided as of September 30, 2018. Because of the need for cash for operating capital and continued overseas expansion, we also do not foresee the need for any of our foreign subsidiaries to distribute funds up to an intermediate foreign parent company in any form of taxable dividend. Under current applicable tax laws, if we choose to repatriate some or all of the funds we have designated as indefinitely reinvested outside the U.S., the amount repatriated would not be subject to U.S. income taxes but may be subject to applicable non-U.S. income and withholding taxes.

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

Net earnings attributable to non-controlling interests for the three months ended September 30, 2018 increased \$0.8 million to \$15.3 million as compared to \$14.5 million for the same period in 2017 primarily attributable to increased profitability by our joint ventures. Non-controlling interests represents the share of net earnings that is attributable to our joint venture partners.

NINE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2017

Net sales

Net sales for the nine months ended September 30, 2018 were \$3.561 billion, an increase of \$367.7 million, or 11.5%, as compared to net sales of \$3.194 billion for the nine months ended September 30, 2017. The increase in net sales came from our international wholesale and global retail businesses, which were partially offset by lower sales in our domestic wholesale segment.

Our domestic wholesale net sales decreased \$2.0 million, or 0.2%, to \$991.7 million for the nine months ended September 30, 2018 from \$993.7 million for the nine months ended September 30, 2017. The decrease in the domestic wholesale segment's net sales was primarily the result of a 4.9% decrease in average price per pair partially offset by a 4.9% unit sales volume increase to 47.0 million pairs for the nine months ended September 30, 2018 from 44.8 million pairs for the same period in 2017. The decrease in our domestic wholesale segment was primarily attributable to decreased sales to our off-price customers. The average selling price per pair within the domestic wholesale segment decreased \$1.08 to \$21.10 per pair for the nine months ended September 30, 2018 from \$22.18 per pair for the same period in 2017, which was attributable to a product sales mix with lower average selling prices.

Our international wholesale segment sales increased \$250.3 million, or 18.9%, to \$1.574 billion for the nine months ended September 30, 2018 compared to sales of \$1.324 billion for the nine months ended September 30, 2017. Direct subsidiary sales increased \$263.1 million, or 24.5%, to \$1,335.4 million for the nine months ended September 30, 2018 compared to net sales of \$1.072 billion for the nine months ended September 30, 2017. The largest sales increases during the period came from our subsidiaries in Germany and our joint ventures in China and India, primarily due to increased sales of product in our on-line channels and increased third-party points of sale. Our distributor sales decreased \$12.9 million to \$238.5 million for the nine months ended September 30, 2018, a 5.1% decrease from sales of \$251.4 million for the nine months ended September 30, 2017. The decrease was primarily due to decreased sales to our distributors in the U.A.E., Australia and New Zealand.

Our retail segment sales increased \$119.5 million to \$995.7 million for the nine months ended September 30, 2018, a 13.6% increase over sales of \$876.2 million for the nine months ended September 30, 2017. The increase in retail sales was primarily attributable to increased comparable store sales of 4.5% resulting from increased sales of product from our Women's and Men's Sport, Men's USA and Kids' divisions. During the nine months ended September 30, 2018, we opened one domestic concept store, one domestic outlet store, 18 domestic warehouse stores, 12 international concept stores, and seven international outlet stores, and one international warehouse store. We closed four domestic concept stores. For the nine months ended September 30, 2018, our domestic retail sales increased 9.2% compared to the same period in 2017, which was primarily attributable to positive comparable domestic store sales of 3.4% and a net increase of 29 domestic stores during the nine months ended September 30, 2018. Our international retail store sales increased 23.2%, which was primarily attributable to positive comparable international store sales of 7.4% and a net increase of 29 international stores when compared to the prior year period.

Gross profit

Gross profit for the nine months ended September 30, 2018 increased \$223.1 million to \$1.708 billion as compared to \$1.485 billion for the nine months ended September 30, 2017. Gross profit as a percentage of net sales, or gross margin, increased to 48.0% for the nine months ended September 30, 2018 from 46.5% for the same period in the prior year. Our domestic wholesale segment gross profit decreased \$4.3 million, or 1.2%, to \$372.2 million for the nine months ended September 30, 2018 compared to \$376.5 million for the nine months ended September 30, 2017, primarily attributable lower average margins and sales. Domestic wholesale margins decreased to 37.5% for the nine months ended September 30, 2018 from 37.9% for the same period in the prior year. The decrease in domestic wholesale margins was primarily attributable to lower average selling prices.

Gross profit for our international wholesale segment increased \$157.4 million, or 26.5%, to \$752.3 million for the nine months ended September 30, 2018 compared to \$594.9 million for the nine months ended September 30, 2017. International wholesale gross margins were 47.8% for the nine months ended September 30, 2018 compared to 44.9% for the nine months ended September 30, 2017. Gross margins for our direct subsidiary sales increased to 51.8% for the nine months ended September 30, 2018 as compared to 49.2% for the nine months ended September 30, 2017, which was primarily attributable to a product mix with sales of more products with higher margins. Gross margins for our distributor sales were 25.7% for the nine months ended September 30, 2018 as compared to 26.6% for the nine months ended September 30, 2017.

Gross profit for our retail segment increased \$70.0 million, or 13.6%, to \$583.4 million for the nine months ended September 30, 2018 as compared to \$513.4 million for the nine months ended September 30, 2017. Gross margins for all company-owned domestic and international stores and our e-commerce business were 58.6% for the nine months ended September 30, 2018 and September 30, 2017, respectively. Gross margin for our domestic stores was 61.1% for the nine months ended September 30, 2018 as compared to 60.5% for the nine months ended September 30, 2017. The increase in domestic retail gross margins was primarily attributable to higher margin product mix. Gross margins for our international stores were 53.6% and 54.5% for the nine months ended September 30, 2018 and 2017, respectively. The decrease in international retail gross margins was primarily attributable to a product sales mix with lower margin products.

Selling expenses

Selling expenses increased by \$25.3 million, or 9.6%, to \$288.6 million for the nine months ended September 30, 2018 from \$263.3 million for the nine months ended September 30, 2017. As a percentage of net sales, selling expenses were 8.1% and 8.2% for the nine months ended September 30, 2018 and 2017, respectively. The increase in selling expenses was primarily attributable to higher advertising expenses of \$18.8 million to support our global growth and higher sales commissions of \$5.3 million due to increased net sales for the nine months ended September 30, 2018.

General and administrative expenses

General and administrative expenses increased by \$176.4 million, or 19.5%, to \$1.081 billion for the nine months ended September 30, 2018 from \$904.6 million for the nine months ended September 30, 2017. As a percentage of sales, general and administrative expenses were 30.4% and 28.4% for the nine months ended September 30, 2018 and 2017, respectively. The increase in general and administrative expenses was primarily attributable to \$5.7 million in additional legal costs, \$84.9 million related to supporting our international operations due to increased sales volumes and expansion into newer markets, \$43.3 million of additional operating expenses attributable to operating 29 new international and 29 new domestic retail stores, since September 30, 2017. The expenses related to our distribution network, including purchasing, receiving, inspecting, allocating, warehousing and packaging of our products, increased \$23.4 million to \$191.4 million for the nine months ended September 30, 2018 from \$168.0 million for the nine months ended September 30, 2017. The increase in warehousing costs was primarily due to increased sales volumes worldwide.

Other income (expense)

Interest income increased \$4.7 million to \$6.3 million for the nine months ended September 30, 2018, as compared to \$1.6 million at September 30, 2017. The increase in interest income was due primarily due to increased interest rates and higher average cash and investment balances as compared to the prior year period. Interest expense decreased \$1.2 million to \$3.7 million for the nine months ended September 30, 2018 compared to \$4.9 million for the same period in 2017. Interest expense decreased primarily due to reduced interest paid to our foreign manufacturers. Other expense increased \$12.4 million to \$6.9 million for the nine months ended September 30, 2018 as compared to other income of \$5.5 million for the same period in 2017 due to increased foreign currency exchange losses. The increase in other expense was primarily attributable to foreign currency exchange loss of \$6.0 million for the nine months ended September 30, 2018, as compared to a foreign exchange gain of \$5.7 million for the nine months ended September 30, 2017. This increased foreign currency exchange loss was primarily attributable to the impact of a stronger U.S. dollar on our intercompany investments in our foreign subsidiaries.

Income taxes

Income tax expense and the effective tax rate for the nine months ended September 30, 2018 and 2017 were as follows (dollar amounts in thousands):

	Nine Months Ended September 30,	
	2018	2017
Income tax expense	\$ 45,521	\$ 42,546
Effective tax rate	13.0%	12.9%

The tax provisions for the nine months ended September 30, 2018 and 2017 were computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. We estimate its effective tax rate to be between 13% and 15% for the full year, which implies a fourth quarter effective tax rate of between 17% and 20%. Our effective tax rate is subject to management's quarterly review and revision, as necessary.

Our provision for income tax expense and effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (loss) before income taxes. In the foreign jurisdictions in which we have operations, the applicable statutory rates range from 0% to 34%, which on average are generally significantly lower than the U.S. federal and state combined statutory rate of approximately 26%.

For the nine months ended September 30, 2018, the increase in the effective tax rate was due to increased U.S. tax on foreign earnings resulting from changes in U.S. tax law under the Tax Act.

As of September 30, 2018, we had approximately \$802.8 million in cash and cash equivalents, of which \$405.0 million, or 50.5%, was held outside the U.S. Of the \$405.0 million held by our non-U.S. subsidiaries, approximately \$235.3 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 condensed consolidated financial statements as of September 30, 2018.

Non-controlling interests in net income of consolidated subsidiaries

Net earnings attributable to non-controlling interests for the nine months ended September 30, 2018 increased \$9.5 million to \$50.5 million as compared to \$41.0 million for the same period in 2017 attributable to increased profitability by our joint ventures. Non-controlling interests represents the share of net earnings that is attributable to our joint venture partners.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our working capital at September 30, 2018 was \$1.616 billion, an increase of \$108.4 million from working capital of \$1.508 billion at December 31, 2017. Our cash and cash equivalents at September 30, 2018 were \$802.8 million, compared to \$736.4 million at December 31, 2017. The increase in cash and cash equivalents of \$66.4 million, after consideration of the effect of exchange rates, was the result of \$23.5 million due to the reclassification of our return reserve, decreased inventories of \$99.3 million, an increase in accounts payable of \$48.3 million and our net earnings of \$304.2 million which were partially offset by an increase in accounts receivables of \$143.7 million. Our short-term and long-term investments were \$87.3 million and \$91.1 million, respectively at September 30, 2018. 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

For the nine months ended September 30, 2018, net cash provided by operating activities was \$412.8 million as compared to \$175.5 million for the nine months ended September 30, 2017. The \$237.3 million increase in cash flows provided by operating activities for the nine months ended September 30, 2018, primarily resulted from an increase in cash flows generated from accounts payable of \$73.5 million from reduced inventory purchases, a decrease in cash used by accounts receivable of \$20.6 million from increased cash collections, and an increase in cash generated by higher net earnings of \$17.3 million.

Investing Activities

Net cash used in investing activities was \$258.3 million for the nine months ended September 30, 2018 as compared to \$103.9 million for the nine months ended September 30, 2017. The \$154.4 million increase in net cash used in investing activities for the nine months ended September 30, 2018 as compared to the same period in the prior year was primarily the result of a net increase in purchases and maturities of investments of \$159.4 million, offset by lower capital expenditures of \$4.9 million. Capital expenditures were \$97.3 million for the nine months ended September 30, 2018 primarily consisted of \$37.9 million for new store openings and remodels and \$31.1 million to support our international wholesale operations. This was compared to capital expenditures of \$102.2 million for the nine months ended September 30, 2017, which consisted of \$56.5 million for new store openings and remodels and \$3.1 million paid for equipment costs for increased automation at our European Distribution Center. We expect our ongoing capital expenditures for the remainder of 2018 to be approximately \$20.0 million to \$25.0 million, which includes opening an additional 10 to 15 Company-owned retail stores and several store remodels and investments in our international operations. Except for capital expenses related to enhancing our distribution capabilities, we expect to fund our capital expenditures through existing cash balances, investment balances and cash from operations.

Financing Activities

Net cash used in financing activities was \$79.1 million during the nine months ended September 30, 2018 compared to \$2.5 million in net cash provided by financing activities during the nine months ended September 30, 2017. The \$81.6 million increase in cash used in financing activities for the nine months ended September 30, 2018 as compared to the same period in the prior year is primarily attributable to repurchases of our Class A common stock of \$58.0 million, and increased payments for taxes related to net share settlement of equity awards of \$11.4 million and distribution to non-controlling interest of \$18.7 million.

Capital Resources and Prospective Capital Requirements

Share Repurchase Program

On February 6, 2018, the Company's Board of Directors authorized a share repurchase program pursuant to which the Company may, from time to time, purchase shares of its Class A common stock, par value \$0.001 per share ("Class A common stock"), for an aggregate repurchase price not to exceed \$150.0 million. The Share Repurchase Program expires on February 6, 2021. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Act of 1934, as amended, subject to market conditions, applicable legal requirements and other relevant factors. The Share Repurchase Program does not obligate the Company to acquire any particular amount of shares of Class A common stock and the program may be suspended or discontinued at any time. As of September 30, 2018, there was \$92.0 million available under the Share Repurchase Program.

Financing Arrangements

On September 29, 2018, through a subsidiary of our Chinese joint-venture ("the Subsidiary"), we entered into a 700 million yuan loan agreement with China Construction Bank Corporation ("the China DC Loan Agreement"). The proceeds from the China DC Loan Agreement will be used to finance the construction of our distribution center in China. Interest will be paid quarterly. The interest rate will float and be calculated at a reference rate provided by the People's Bank of China. The interest rate may increase or decrease over the life of the loan and will be evaluated every 12 months. The principal of the loan will be repaid in semi-annual installments, beginning in 2021, of variable amounts as specified in the China DC Loan Agreement. The China DC Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that limit the ability of the joint venture to, among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Loan Agreement, and adjust the capital stock structure of the Subsidiary. The China DC Loan Agreement matures on September 28, 2023. The obligations of the Subsidiary under the China DC Loan Agreement are jointly and severally guaranteed by our Chinese joint venture. As of September 30, 2018 there was \$2.8 million outstanding under this credit facility, which is classified as short-term borrowings in our consolidated balance sheets.

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 of 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 September 30, 2018, there was \$0.1 million outstanding under this credit facility, which is classified as short-term borrowings in our condensed consolidated balance sheets. The remaining balance in short-term borrowings, as of September 30, 2018, is related to our international operations.

On April 30, 2010, HF Logistics-SKX, LLC (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 was 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 condensed 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 \$65.5 million outstanding under the Amended Loan Agreement, of which \$1.5 million and \$64.0 million is included in current installments of long-term borrowings and long-term borrowings, respectively, as of September 30, 2018.

As of September 30, 2018, outstanding short-term and long-term borrowings were \$87.0 million, of which \$65.8 million relates to loans for our domestic distribution center and the remaining balance relates to our international operations. Our long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. We were in compliance with all debt covenants under the Amended Loan Agreement and the Credit Agreement as of the date of this quarterly report.

We believe that anticipated cash flows from operations, available borrowings under our credit agreement, existing cash and investment 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 November 30, 2019. 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 costs of expanding our product distribution infrastructure in China, available borrowings under our China DC Loan Agreement, 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, costs associated with building new corporate offices, any potential acquisitions of other brands or companies, and the number and timing of new store openings and the amount of share repurchases. 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.

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, 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.

CONTRACTUAL OBLIGATIONS

On October 19, 2018, through a subsidiary of our Chinese joint venture (“the Subsidiary”), we entered into a 50 million yuan revolving loan agreement with China Construction Bank Corporation (“the China DC Revolving Loan Agreement”). The proceeds from the China DC Revolving Loan Agreement will be used to finance the construction and operation of our distribution center in China. Interest will be paid quarterly. The interest rate will be based upon the prime rate from the People’s Bank of China less a discount. As specified in the China DC Revolving Loan Agreement, the entire principal balance of the loan will be repaid when the China DC Revolving Loan Agreement matures on October 18, 2019. The Subsidiary has the option to extend the China DC Revolving Agreement, conditioned upon the satisfaction of certain terms. The China DC Revolving Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the Subsidiary, to among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Revolving Loan Agreement, and adjust the capital stock structure of the Subsidiary. The obligations of the Subsidiary under the China DC Revolving Loan Agreement are jointly and severally guaranteed by our Chinese joint venture.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Management’s Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“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 on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a detailed discussion of our critical accounting policies, please refer to our annual report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 1, 2018. Our critical accounting policies and estimates did not change materially during the quarter ended September 30, 2018.

Effective January 1, 2018, we adopted Accounting Standards Codification 606 “*Revenue from Contracts with Customers*” (“ASC 606”). Refer to Note 1 – General in the accompanying Notes to our Condensed Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to the accompanying Notes to the Condensed Consolidated Financial Statements for recently adopted and recently issued accounting pronouncements.

QUARTERLY RESULTS AND SEASONALITY

While sales of footwear products have historically been seasonal in nature with the strongest domestic sales generally occurring in the second and third quarters, we believe that changes in our product offerings and growth in our international sales and retail sales segments have partially mitigated the effect of this seasonality.

We have experienced, and expect to continue to experience, variability in our net sales and operating results on a quarterly basis. Our domestic customers generally assume responsibility for scheduling pickup and delivery of purchased products. Any delay in scheduling or pickup which is beyond our control could materially negatively impact our net sales and results of operations for any given quarter. We believe the factors which influence this variability include (i) the timing of our introduction of new footwear products, (ii) the level of consumer acceptance of new and existing products, (iii) general economic and industry conditions that affect consumer spending and retail purchasing, (iv) the timing of the placement, cancellation or pickup of customer orders, (v) increases in the number of employees and overhead to support growth, (vi) the timing of expenditures in anticipation of increased sales and customer delivery requirements, (vii) the number and timing of our new retail store openings and (viii) actions by competitors. Because of these and other factors including those referenced or incorporated by reference in our annual report on Form 10-K for the year ended December 31, 2017 under the captions “Item 1A: Risk Factors” and “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the operating results for any particular quarter are not necessarily indicative of the results for the full year.

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

Although we currently invoice most of our customers in U.S. dollars, changes in the value of the U.S. dollar versus the local currency in which our products are sold, along with economic and political conditions of such foreign countries, could adversely affect our business, financial condition and results of operations. 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. In addition, the weakening of an international customer’s local currency and banking market may negatively impact such customer’s ability to meet their payment obligations to us. We regularly monitor the creditworthiness of our international customers and make credit decisions based on both prior sales experience with such customers and their current financial performance, as well as overall economic conditions. While we currently believe that our international customers have the ability to meet all of their obligations to us, there can be no assurance that they will continue to be able to meet such obligations. During 2017 and the first nine months of 2018, exchange rate fluctuations did not have a material impact on our net sales or inventory costs. We do not engage in hedging activities with respect to such exchange rate risk.

ITEM 3. 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 and foreign currency exchange rates. Changes in interest rates and changes in foreign currency exchange rates have and will have an impact on our results of operations.

Interest rate fluctuations. As of September 30, 2018, we have \$12.7 million and \$68.3 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 approximately \$0.3 million for the quarter ended September 30, 2018. We do not expect any changes in interest rates to have a material impact on our financial condition or results of operations or cash flows during the remainder of 2018. The interest rate charged on our domestic secured line of credit facility is based on the prime rate of interest, our domestic distribution center loan is based on the one month LIBOR, and our China DC Loan and China DC Revolving Loan are based on variable-rates provided by the People’s Bank of China. Changes in the prime rate of interest or the LIBOR interest rate will have an effect on the interest charged on outstanding balances.

We may enter into derivative financial instruments such as interest rate swaps in order to limit 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 September 30, 2018 to hedge the cash flows on our \$65.5 million variable rate debt on our domestic distribution center. This instrument was a variable to fixed derivative with a notional amount of \$65.5 million at September 30, 2018. 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 payments.

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, 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 \$15.4 million and a cumulative foreign currency translation gain of \$8.6 million for the nine months ended September 30, 2018 and 2017, 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 September 30, 2018 would have reduced the values of our net investments by approximately \$28.2 million.

ITEM 4. CONTROLS AND PROCEDURES

Attached as exhibits to this quarterly report on Form 10-Q 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 have established "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 the officers who certify our financial reports as well as other members of senior management to allow timely decisions regarding required disclosures. As of the end of the period covered by this quarterly report on Form 10-Q, we evaluated under the supervision and with the participation of our management, including our CEO and CFO, 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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

Our management, including our CEO and CFO, 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 attributable 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. Assessments 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.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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's 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 Toes and Bobs 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 Bobs canvas shoes do not infringe. On June 26, 2017, we filed our responsive brief, on February 8, 2018 the court heard oral argument, and on June 7, 2018 the Court requested supplemental briefing on certain issues. On October 30, 2018, the United States Court of Appeals for the Federal Circuit vacated the ITC's ruling and remanded the matter back to the ITC for further proceedings. 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.

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 (the "PTAB") 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 PTAB, seeking to invalidate seven of the eight designs patents that Nike is asserting. In July 2017, we were notified that the PTAB granted our petitions and instituted inter partes review proceedings with respect to two of the seven design patents but denied our petitions as to the others. In June 2017, we filed a motion to transfer venue from the District of Oregon to the Central District of California based on a recent United States Supreme Court decision and the motion was granted in late 2017. On June 28, 2018, the PTAB issued final decisions in the two inter partes review proceedings, rejecting the invalidity challenges made by our company in those proceedings. On June 4, 2018, the Court, over Nike's opposition, granted our request for a claim construction hearing. A claim construction hearing was held on August 28, 2018 and we are currently waiting for a ruling. While it is too early to predict the outcome of the case or whether an adverse result 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.

Steamfitters Local 449 Pension Plan v. Skechers USA, Inc., Robert Greenberg and David Weinberg. — On October 20, 2017, the Steamfitters Local 449 Pension Plan filed a securities class action, on behalf of itself and purportedly on behalf of other shareholders who purchased Skechers stock in a five-month period in 2015, against our company and certain of its officers in the United States District Court for the Southern District of New York, case number 1:17-cv-08107. On April 4, 2018, the plaintiffs filed an amended and consolidated complaint and on July 24, 2018 plaintiffs filed a second amended and consolidated complaint. The lawsuit alleges that, between April 23 and October 22, 2015, we made materially false statements or omissions of material fact about the anticipated performance of our Domestic Wholesale segment and asserts claims for unspecified damages, attorneys' fees and equitable relief based on two counts for alleged violations of federal securities laws. Given the early stage of this proceeding and the limited information available, we cannot 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 matter vigorously.

Laborers Local 235 Benefit Fund v. Skechers USA, Inc. Robert Greenberg, David Weinberg and John Vandemore - On September 4, 2018, Laborers Local 235 Benefit Fund filed a securities class action on behalf of itself and purportedly on behalf of other shareholders who purchased the company's stock between October 20, 2017 and July 19, 2018 (the "Class Period"), against our

company and certain of its officers in the United States District Court for the Southern District of New York, case number 1:18-cv-8039. The complaint alleges that throughout the Class Period we made materially false statements or omissions of material fact regarding our sales growth and controlling expenses in an effort to artificially inflate the price of our stock for the personal gain of the Company's founding family. On October 17, 2018, a copycat case named *Steven S. Fishman v. Skechers USA, Inc.* et al. was filed with nearly identical allegations in the United States District Court for the Southern District of New York, 1:18-CV-09510. Given the early stages of these proceedings and the limited information available, we cannot predict the outcome of these legal proceeding or whether an adverse result in these case would have a material adverse impact on our operations or financial position. We believe we have meritorious defenses and intend to defend these matters vigorously.

Yolanda Zuniga v. Team One Employment Specialists, LLC, Skechers USA, Inc., Dolores Carte et al. – On December 20, 2017, our company was named as a defendant in an action filed by a former employee named Yolanda Zuniga in the Superior Court of California, County of Riverside, Case No. RIC 1723878, alleging discrimination, harassment, retaliation, violation of the Family Medical Leave Act/California Family Rights Act, breach of contract and wrongful termination, among other causes of action, and seeking compensatory damages, punitive and exemplary damages, and attorneys' fees. This case was stayed pending the outcome of an arbitration between the parties involving identical claims. Skechers believes it has meritorious defenses, vehemently denies the allegations and intends to defend this case vigorously. Notwithstanding, 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.

Ealeen Wilk v. Skechers U.S.A., Inc. — On September 10, 2018, Ealeen Wilk filed a putative class action lawsuit against our company in the United States District Court for the Central District of California, Case No. 5:18-cv-01921, alleging violations of the California Labor Code, including unpaid overtime, unpaid wages due upon termination and unfair business practices. The complaint seeks actual, compensatory, special and general damages; penalties and liquidated damages; restitutionary and injunctive relief; attorneys' fees and costs; and interest as permitted by law. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe that we have meritorious defenses, vehemently deny the allegations, and intend to defend the case vigorously.

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 1A. RISK FACTORS

The information presented below updates the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2017 and should be read in conjunction with the risk factors and other information disclosed in our 2017 annual report on Form 10-K that could have a material effect on our business, financial condition and results of operations.

Possible New Tariffs That Might Be Imposed By The United States Government Could Have A Material Adverse Effect On Our Results Of Operations.

Recently, the United States government announced tariffs on certain steel and aluminum products imported into the United States, which has resulted in reciprocal tariffs from the European Union on goods imported from the United States. In September 2018, the United States Government placed additional tariffs of approximately \$200 billion on goods imported from China. These tariffs, which took effect on September 25, 2018, initially have been set at a level of 10 percent until the end of the year, at which point the tariffs will rise to 25 percent. China has already imposed tariffs on a wide range of American products in retaliation for new tariffs on steel and aluminum. Additional tariffs could be imposed by China in response to the proposal to increase tariffs on products imported from China. The majority of our products that we sell in the United States are manufactured in China. There is also a concern that the imposition of additional tariffs by the United States could result in the adoption of additional tariffs by other countries as well. Any resulting escalation of trade tensions could have a significant, adverse effect on world trade and the world economy. While it is too early to predict whether or how the recently enacted tariffs will impact our business, the imposition of tariffs on footwear, apparel or other items imported by us from China could require us to increase prices to our customers or, if unable to do so, result in lowering our gross margin on products sold. Tariffs on footwear imported from China could have a material adverse effect on our business and results of operations.

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

During the nine months ended September 30, 2018 and 2017, our net sales to our five largest customers accounted for approximately 10.5% and 12.5% of total net sales, respectively. No customer accounted for more than 10.0% of outstanding accounts receivable balance at September 30, 2018 or December 31, 2017. 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.

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 the nine months ended September 30, 2018 and 2017, the top five manufacturers of our manufactured products produced approximately 41.9% and 49.8% of our total purchases, respectively. One manufacturer accounted for 11.3% of total purchases for the nine months ended September 30, 2018 and the same manufacturer accounted for 19.8% of total purchases for the same period in 2017. 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.

One Principal Stockholder Is Able To Substantially Control All Matters Requiring Approval By Our Stockholders And Another Stockholder Is Able To 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 September 30, 2018, our Chairman of the Board and Chief Executive Officer, Robert Greenberg, beneficially owned 76.4% of our outstanding Class B common shares, members of Mr. Greenberg's immediate family beneficially owned an additional 14.0% 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 30.3% 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 September 30, 2018, Mr. Greenberg beneficially owned 35.5% 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 46.0% of the aggregate number of votes eligible to be cast by our stockholders, and Mr. Schwartzberg beneficially owned 19.5% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Messrs. Greenberg and Schwartzberg are each 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 substantially control or significantly influence, 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Recent Sales of Unregistered Securities: None.

(b) Use of Proceeds from Registered Securities: None.

(c) Issuer Purchases of Equity Securities

The table below summarizes the number of shares of our Class A Common Stock that were repurchased during the three months ended September 30, 2018.

Month Ended	Total Number of Shares Purchased (1) (2)	Average Price Paid Per Share	Total Number of Shares Purchased from Certain Employees (1)	Total Number of Shares Purchased under the Stock Repurchase Program (2)	Maximum Dollar Value of Shares that May Yet Be Purchased under the Program
July 31, 2018	223,938	\$ 27.73	—	223,938	\$ 125,791,000
August 31, 2018	821,475	\$ 29.12	3,852	817,623	101,980,000
September 30, 2018	369,077	\$ 27.42	4,047	365,030	91,973,000
Total	1,414,490	\$ 28.45	7,899	1,406,591	\$ 91,973,000

(1) The Company repurchased 7,899 shares from certain employees to facilitate income tax withholding payments pertaining to restricted stock awards that vested during the three months ended September 30, 2018. Such shares were not repurchased pursuant to a publicly announced plan or program.

(2) As announced on February 6, 2018, the Board of Directors of the Company has approved a stock repurchase program, authorizing the repurchase of up to an aggregate of \$150.0 million of the Company's Class A common stock. The program allows the Company to repurchase shares of Class A common stock from time to time for cash in the open market or privately negotiated transactions or other transactions, as market and business conditions warrant and subject to applicable legal requirements. The stock repurchase program does not obligate the Company to repurchase any particular amount of common stock, and it could be modified, suspended or discontinued at any time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

On September 29, 2018, through a subsidiary of our Chinese joint venture ("the Subsidiary"), we entered into a 700 million yuan loan agreement with China Construction Bank Corporation ("the China DC Loan Agreement"). The proceeds from the China DC Loan Agreement will be used to finance the construction of our distribution center in China. Interest will be paid quarterly. The interest rate will float and be calculated at a reference rate provided by the People's Bank of China. The interest rate may increase or decrease over the life of the loan, and will be evaluated every 12 months. The principal of the loan will be repaid in semi-annual installments, beginning in 2021, of variable amounts as specified in the China DC Loan Agreement. The China DC Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that limit the ability of the Subsidiary, to among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Loan Agreement, and adjust the capital stock structure of the Subsidiary. The China DC Loan Agreement matures on September 28, 2023. The obligations of the Subsidiary under the China DC Loan Agreement are jointly and severally guaranteed by our Chinese joint venture. As of September 30, 2018 there was \$2.8 million outstanding under this credit facility, which is classified as short-term borrowings in our condensed consolidated balance sheets.

On October 19, 2018, through the Subsidiary, we entered into a 50 million yuan revolving loan agreement with China Construction Bank Corporation ("the China DC Revolving Loan Agreement"). The proceeds from the China DC Revolving Loan Agreement will be used to finance the construction and operation of our distribution center in China. Interest will be paid quarterly. The interest rate will be based upon the prime rate from the People's Bank of China less a discount. As specified in the China DC Revolving Loan Agreement, the entire principal balance of the loan will be repaid when the China DC Revolving Loan Agreement matures on October 18, 2019. The Subsidiary has the option to extend the China DC Revolving Loan Agreement, conditioned upon the satisfaction of certain terms. The China DC Revolving Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the Subsidiary, to among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Revolving Loan Agreement, and adjust the capital stock structure of the Subsidiary. The obligations of the Subsidiary under the China DC Revolving Loan Agreement are jointly and severally guaranteed by our Chinese joint venture.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1**	<u>China DC Loan Agreement, dated September 29, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China.</u>
10.2	<u>Mortgage Contract, dated August 28, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China.</u>
10.3	<u>Guarantee Agreement, dated July 24, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China.</u>
10.4**	<u>Cooperative Agreement on Close Management of Fixed Asset Loan Project, dated September 29, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China.</u>
31.1	<u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* 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.

** The Company has applied with the Secretary of the Securities and Exchange Commission for confidential treatment of certain information pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended. The Company has filed separately with its application a copy of the exhibit including all confidential portions, which may be made available for public inspection pending the Securities and Exchange Commission’s review of the application in accordance with Rule 24b-2.

SIGNATURES

Pursuant to the requirements 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.

Date: November 2, 2018

SKECHERS U.S.A., INC.

By: /s/ John Vandemore
John Vandemore
Chief Financial Officer

(Confidential Portions Omitted)
Loan Contract for Fixed Assets

Contract No. XTC-2018-1270-0045

Borrower (Party A): Skechers Taicang Trading and Logistics Co., Ltd.

Address: Room 601~78, No.20, Bei Huan Road, Taicang Port Economic and Technological Development Zone

Post Code: 215400

Legal Representative (Person in Charge): Cedrick Tan

Fax:

Telephone: 020-89160222

Lender (Party B): Taicang Branch of China Construction Bank Corporation

Address: No.44, Xianfu Street, Chengxiang Town, Taicang City

Post Code: 215400

Person in Charge: Ji Changlong

Fax: 0512-53521573

Telephone: 0512-53521573

(With the stamp of Taicang Branch of China Construction Bank Corporation)

Whereas Party A needs to construct the new Skechers Logistics Center, Party A applies for the loan from Party B and Party B hereby agrees to grant the loan to Party A. In accordance with the relevant laws, regulations and rules, Party A and Party B enter into the Contract by consensus for the abidance of both Parties.

Article 1 Loan Amount

Party A shall borrow RMB Seven hundred million Yuan (Amount in words) only from Party B.

Article 2 Loan Purpose and Repayment Source

Party A shall use the loan to invest in the fixed assets and not change the loan purpose without Party B's written notice.

The fixed assets (hereinafter referred to as the "Project") invested with the loan under the Contract, the specific purpose of loan and the source of repayment shall refer to the "Basic Information of the Project and Loan" as Appendix 1 hereto.

Article 3 Term of Loan

The term of loan agreed in the Contract shall last five years, namely from September 29, 2018 to September 28, 2023.

Where the starting date of the term of loan hereunder contradicts that listed in loan transfer voucher (refers to the "receipt for loan", the same below), the actual loan granting date listed in the loan transfer voucher upon the first loan granting shall prevail, and the due date of loan stipulated in the first paragraph of Article 3 shall be modified accordingly.

The loan transfer voucher shall be the part of the Contract and shall have the same legal force as the Contract itself.

Article 4 Loan Interest Rate, Penalty Interest Rate and Interest Calculation, Interest Settlement

I. Loan Interest

Loan interest hereunder refers to annual interest rate, belonging to the following (IV) type:

(I) Fixed interest rate, namely NO ENTRIES HEREIN %, shall remain the same within the term of loan;

(II) Fixed interest rate, namely the benchmark interest rate floating NO ENTRIES HEREIN (optional, please fill in with “upward” or “downward”) by NO ENTRIES HEREIN % on the value date, shall remain the same within the term of loan;

(III) Fixed interest rate, namely the LPR interest rate NO ENTRIES HEREIN (optional, please fill in with “add” or “minus”) NO ENTRIES HEREIN base point(s) (1 base point = 0.01%, exact to 0.01 base point), shall remain the same within the term of loan;

(IV) Floating interest rate, namely the benchmark interest rate floating down ward (optional, please fill in with “upward” or “downward”) by 10 % on the value date. And since the value date until the principal and the interest hereunder is paid off in full, the floating rate shall be modified per twelve month(s) according to the benchmark interest rate on the modification date and the abovementioned upward/downward scale. Modification date for the interest rate shall rank the same day in current month with that of the value date. Where no such day can be found, the last day of current month shall be the modification date for the interest rate.

(V) Floating interest rate, namely the LPR interest rate NO ENTRIES HEREIN (optional, please fill in with “add” or “minus”) NO ENTRIES HEREIN base point(s) (1 base point = 0.01%, exact to 0.01 base point), shall, since the value date until the principal and the interest hereunder is paid off in full, be modified per NO ENTRIES HEREIN month(s) according to the LPR interest rate of the working day before the modification date and the abovementioned add/minus base point(s). Modification date for the interest rate shall rank the same day in current month with that of the value date. Where no such day can be found, the last day of current month shall be the modification date for the interest rate.

(VI)

1. NO ENTRIES HEREIN

2. NO ENTRIES HEREIN

3. NO ENTRIES HEREIN

II. Penalty Interest Rate

(I) Where Party A fails to use the loan for the purpose listed hereunder, the penalty interest rate shall be 100% above the loan interest rate. If the loan interest rate is modified according to Item I (IV) or Item I (V) of Article 4, the penalty interest loan shall be adjusted according to the modified loan interest rate and the abovementioned upward scale simultaneously.

(II) The penalty interest rate for overdue loan hereunder shall be 50% above the loan interest rate. If the loan interest rate is modified according to Item I (IV) or Item I (V) of Article 4, the penalty interest loan shall be adjusted according to the modified loan interest rate and abovementioned upward scale simultaneously.

(III) For simultaneous occurrence of overdue loan and embezzled loan, the penalty interest or the double interest shall be imposed subject to the severity.

III. The value date mentioned in Article 4 refers to the date when the loan granted hereunder for the first time is transferred to the loan granting account as agreed in Article 6 hereunder (hereinafter referred to as "loan granting account").

When the loan hereunder is granted for the first time, the benchmark interest rate refers to the loan interest of the same installment and grade published by the People's Bank of China on the value date; but when the loan interest rate is modified as agreed above later, the benchmark interest rate refers to the loan interest of the same installment and grade published by the People's Bank of China on the modification date; where no loan interest rate of same installment and grade is published by the People's Bank of China, the benchmark interest rate refers to the loan interest rate of the same installment and grade commonly accepted by the banking industry on the modification date, unless otherwise agreed by both parties.

The LPR interest rate hereunder shall be determined in accordance with the item NO ENTRIES HEREIN as follows:

1. When the loan hereunder is granted for the first time, the LPR interest rate refers to the RMB loan prime rate for one-year term of China Construction Bank Corporation (China Construction Bank LPR) of the working day before the effective date of the Contract; but when the loan interest rate is modified as agreed above later, the LPR interest rate refers to the RMB loan prime rate for one-year term (China Construction Bank LPR) of the working day before the modification date.

2. When the loan hereunder is granted for the first time, the LPR interest rate refers to the RMB loan prime rate for one-year term of China Construction Bank Corporation (China Construction Bank LPR) of the working day before the value date; but when the loan interest rate is modified as agreed above later, the LPR interest rate refers to the RMB loan prime rate for one-year term (China Construction Bank LPR) of the working day before the modification date.

3. When the loan hereunder is granted for the first time, the LPR interest rate refers to the RMB loan prime rate for one-year term (market LPR) published by the National Interbank Funding Center on the working day before the effective date of the Contract; but when the loan interest rate is modified as agreed above later, the LPR interest rate refers to the RMB loan prime rate for one-year term (market LPR) published by the National Interbank Funding Center on the working day before the modification date.

4. When the loan hereunder is granted for the first time, the LPR interest rate refers to the RMB loan prime rate for one-year term (market LPR) published by the National Interbank Funding Center on the working day before the valid date; but when the loan interest rate is modified as agreed above later, the LPR interest rate refers to the RMB loan prime rate for one-year term (market LPR) published by the National Interbank Funding Center on the working day before the modification date.

IV. The loan interest shall be calculated since the date when the loan is transferred to the loan granting account. The loan hereunder shall be calculated by day with daily interest rate equivalent to

the annual interest rate being divided by 360. Where Party A fails to pay the interest on the interest settlement date as agreed hereunder, corresponding interest calculation shall be subject to the double interest rate starting from the next day.

V. Interest Settlement

(I) For loan with fixed interest rate, corresponding interest shall be calculated according to agreed interest rate. For loan with floating interest rate, corresponding interest shall be calculated in accordance with the interest rate determined in each floating period; where the interest rate floats for several times within sole interest settlement period, interest for each floating period shall be calculated respectively first, then on the interest settlement date, the interests for each floating period shall be added up together to get the final interest.

(II) Interest for the loan hereunder shall be settled with the 2nd method as follows:

1. Interest shall be settled by month. The interest settlement date shall be the 20th day of each month;
2. Interest shall be settled by season. The interest settlement date shall be the 20th day of the final month of each season;
3. Other methods NO ENTRIES HEREIN.

Article 5 Loan Granting and Payment

I. Preconditions for Loan Granting

Party B is in duty bound to grant loan only when all preconditions as follows are being satisfied continuously, except Party B waives its duty in part or in full.

1. Party A has settled all legal formalities upon approval, registration, delivery, insurance et cetera related to the loan hereunder;
2. Guaranty for the Contract satisfying Party B's requirements has been set up and is valid continuously;
3. Party A has opened account for withdrawal and repayment as required by Party B;
4. None of the event of default agreed herein or the situations that are possible to endanger the creditor's rights of Party B agreed herein happen to Party A;
5. Party B's loan granting conduct hereunder is not in violation of any laws, regulations or rules or banned by authoritative departments.
6. The capital with the same proportion as that of the granted loan has been prepared in full and the schedule of the project matches with the funds that have been invested;

7. The important financial indicators of Party A are in compliance with “Restrictive Provisions on Financial Indicators” as listed in Attachment 2 continuously;

8. Where the single payment (disbursement) satisfies any one of the following situations, Party A shall provide the related documents to Party B before grant of loan:

(1) The single payment (disbursement) exceeds 5% of the total investment in the Project (namely RMB Fifty-seven million seven hundred and thirty thousand Yuan);

(2) The single payment (disbursement) exceeds RMB 5 million Yuan;

(3) NO ENTRIES HEREIN

(4) NO ENTRIES HEREIN

Under any one of the abovementioned situations, the documents that shall be provided to Party B by Party A shall cover

(1) The loan transfer voucher with Party A's signature and seal and the voucher for payment and settlement with Party A's signature and seal;

(2) The transaction documents corresponding to such payment (including but not limited to the relevant documents, such as the contract of commodities or labor and/or invoices that may prove the facts of payment);

(3) The proof that the project funds have been prepared and the proof of how to use the project funds;

(4) Other materials required by Party B.

9. Where the single payment (disbursement) fails to satisfy any one of the situations specified in the Item 8, Party A shall provide Party B with the use plan corresponding to the planned loan and other documents required by Party B.

10. The documents provided by Party A to Party B shall satisfy the following requirements of

(1) Legitimacy, authenticity, completeness, accuracy and validity;

(2) NO ENTRIES HEREIN;

(3) NO ENTRIES HEREIN; and

(4) Other requirements proposed by Party B.

11. Other Conditions:

NO ENTRIES HEREIN

II. Loan Utilization Plan

The loan utilization plan shall be determined with the (2nd) method as follows

(I) The loan utilization plan shall be as follows:

- 1. NO ENTRIES HEREIN Amount _____ ;
- 2. _____ Amount _____ ;
- 3. _____ Amount _____ ;
- 4. _____ Amount _____ ;
- 5. _____ Amount _____ ;
- 6. _____ Amount _____ ;
- 7. NO ENTRIES HEREIN

(II) The loan utilization plan shall be as follows:

- 1. From September 29, 2018 to September 28, 2020 Amount Seven hundred million Yuan ;
- 2. From NO ENTRIES HEREIN to _____ Amount _____ ;
- 3. From _____ to _____ Amount _____ ;
- 4. From _____ to _____ Amount _____ ;
- 5. From _____ to _____ Amount _____ ;
- 6. From _____ to _____ Amount _____ ;
- 7. NO ENTRIES HEREIN

(III) Based on the actual demands of the Project, the application for the loan utilization will be proposed at any time.

(IV) NO ENTRIES HEREIN

III. Party A shall use the fund according to the loan utilization plan listed in the Article 2, unless written consent is obtained by Party B, Party A may not postpone the utilization on loan fund, or otherwise ahead of schedule, or split or cancel the loan fund.

Party A shall pay the promise fee for loan to Party B according to the following arrangement:

NO ENTRIES HEREIN.

The computational formula for the promise fee for loan is as follows:

NO ENTRIES HEREIN.

The promise fee for loan shall be paid by the NO ENTRIES HEREIN [optional, fill with (1) month or (2) quarter] and Party A shall pay the promise fee for loan of last NO ENTRIES HEREIN

[optional, fill with (1) month or (2) quarter] to Party B within NO ENTRIES HEREIN working days at the beginning of each _____
NO ENTRIES HEREIN [optional, fill with (1) month or (2) quarter].

IV. Where Party A utilizes the funds by installments, the expiry date of the term of loan shall be subject to that agreed in Article 3 herein.

V. Party B's Payment under Entrustment

1. Party A shall entrust Party B to pay the loan fund to Party A's counterparty provided that the single payment satisfies any one of the situations specified in Item 8 of Sub-article 1 herein. Party A shall not directly pay the loan fund mentioned to its transaction counterparty.

2. When Party B makes payment under entrustment, Party B shall transfer loan fund to the loan granting account first, then directly pay the loan fund to the account of Party A's transaction counterparty through the loan granting account. In no circumstances shall Party A dispose of loan fund in any form(including but not limited to transfer and withdrawal).

3. Party B shall carry out formality inspection on payment amount, payment time, payment object, payment method and handling account in documents provided by Party A. When Party B, after formality inspection on abovementioned items, believes that they comply with its requirement, Party B shall pay the loan fund to Party A's transaction counterparty.

4. Party B's formality inspection upon abovementioned payment elements does not mean that Party B has confirmed the authenticity, legality and compliance of the transaction, or Party B is involved in any disputes between Party A and Party A's transaction counterparty or other third party, or Party B needs to undertake any responsibility or liability belonging to Party A. Party B shall be compensated by Party A for any loss due to the act of payment under entrustment.

5. Where the loan fund payment fails or cannot enter the account of Party A's transaction counterparty because the information provided by Party A is inaccurate in the mode of Party B's payment under entrustment, the following agreement shall prevail:

(1) As to the loan fund, in no circumstances shall Party A dispose of loan fund in any form (including but not limited to transfer and withdrawal);

(2) Party A shall perform the obligations to provide or correct the documents according to Party B's requirements within three working days;

Where Party B fails to comply with any one of the arrangements mentioned above, Party B shall be entitled to recover such loan fund in advance.

6. All risks, liabilities and losses caused by the failure, mistake, and delay of loan fund payment irrelevant to Party B shall be undertaken by Party A. Party B's any loss arising out of this shall be compensated by Party A.

VI. If the loan fund is frozen or transferred by the authorities after entry into the account for the grant of loan, such risks and losses shall be assumed by Party A. Party B's any loss arising out of this shall be compensated by Party A.

Article 6 Account Utilization and Supervision

I. Loan Granting Account

Loan granting account hereunder shall be determined in accordance with the (2nd) method as follows:

(1) Within NO ENTRIES HEREIN working days after the effective date of the Contract and before the loan is granted for the first time, Party A shall open a specialized loan granting account at Party B, and the account shall be specially used for the grant and payment of all loan hereunder.

(2) Other account(s) opened by Party A at Party B (Account No. [*]).

2. Repayment Provision Account

Party A shall open the repayment provision account with Party B or consider the current account opened with Party B (Account No. [*]) as the repayment provision account within one working day as from the day of effectiveness of the Contract. The repayment provision account shall satisfy the following requirements:

(1) The cash flow of incomes of Party A or the Project (including but not limited to the incomes from operation and the newly-built projects and the investment added by the shareholders) shall be deposited to such account in proportion as follows: 100%.

(2) The average amount of funds in such account shall satisfy the following requirements:

NO ENTRIES HEREIN

(3) NO ENTRIES HEREIN

(4) Without Party B's permission, in no circumstances shall Party A dispose of the funds in the repayment provision account in any form (including but not limited to transfer or disbursement).

* Confidential Portions Omitted and Filed Separately with the Commission.

3. Party B shall be entitled to monitor the following accounts opened by Party A with Party B:

- (1) Account No. [*]
- (2) Account No. [*]
- (3) Account No. NO ENTRIES HEREIN

Party B's monitoring measure shall include but be not limited to the following:

(1) Before Party A disburses the funds in the accounts of the project incomes, it shall submit the relevant documents, such as contracts of business and labor service and the invoices that may prove the true and lawful purpose to Party B. The funds shall not be disbursed until Party B approves after an inspection;

- (2) NO ENTRIES HEREIN ;
- (3) NO ENTRIES HEREIN.

Without Party B's permission, in no circumstances shall Party A dispose of the funds in any one of the above accounts in any form (including but not limited to transfer or disbursement).

Article 7 Repayment

I. Principle of Repayment

Party A's repayment hereunder shall be subject to the following principles:

Party B is entitled to pay for varied expenses paid by Party B in advance for Party A, which is agreed hereunder, and the expenses for realizing its creditor's rights with Party A's repayment fund first. Then the remaining fund shall be repaid with the principles of "interest first, principal later" and "principal and interest paid off altogether". But for the loan with its principal overdue more than ninety days or its interest overdue more than ninety days, or the loan separately regulated by laws, regulations or rules, the principle of "principal first, interest later" shall be applied in Party A's repayment after Party A repays abovementioned expenses.

II. Payment of Interest

Party A shall pay due interest to Party B on interest settlement date. First interest payment date shall be the first interest settlement date after the loan is granted. At the final repayment, interest and principal shall be paid off altogether.

III. Principal repayment plan

* Confidential Portions Omitted and Filed Separately with the Commission.

The principal repayment plan shall be determined in accordance with the Method (I) as follows:

(I) The principal repayment plan is as follows:

1.	[hw:] <u>April 10, 2021</u>	Amount	<u>Twenty million Yuan</u>	;
2.	[hw:] <u>October 10, 2021</u>	Amount	<u>Eighty million Yuan</u>	;
3.	[hw:] <u>April 10, 2022</u>	Amount	<u>Forty million Yuan</u>	;
4.	[hw:] <u>October 10, 2022</u>	Amount	<u>One hundred sixty million Yuan</u>	;
5.	[hw:] <u>April 10, 2023</u>	Amount	<u>Eighty million Yuan</u>	;
6.	[hw:] <u>September 28, 2023</u>	Amount	<u>Three hundred twenty million Yuan</u>	;
7.	<u>NO ENTRIES HEREIN</u>			

(II) NO ENTRIES HEREIN

IV. Repayment Method

Party A shall, prior to the repayment date as agreed hereunder, prepare fund payable for current installment at the repayment provision account or other accounts opened at Party B and transfer the fund for loan repayment on its own (Party B is entitled to deduct fund for repayment from such account), or transfer fund for repayment from other account(s) on the repayment date hereunder.

V. Repayment in Advance

Where Party A intends to return the principal in advance, it shall submit the application in writing to Party B ten working days in advance. The principal can be repaid in part or in full provided that consent is obtained from Party B.

Party A's principal repayment in advance shall be based on the actual fund utilization days and the interest shall be calculated according to the loan interest rate as agreed hereunder.

Where Party B agrees on Party A's principal repayment in advance, Party B is entitled to collect compensation from Party A. And the compensation amount shall be determined in accordance with the 1st standard as follows:

1. Compensation amount = Principal amount to be repaid in advance × Month number for repayment in advance × 0‰. If the month number is less than one, it shall still be deemed as one when calculation of compensation;

2. NO ENTRIES HEREIN

Under the circumstances that Party A chooses to make repayment by installments: where Party A intends to repay loan principal in part in advance, it shall make the repayment in reverse order listed in the repayment plan. After it makes repayment in advance, it shall repay the outstanding loan in accordance with the loan interest rate as agreed hereunder.

Article 8 Rights and Obligations of Party A

I. Party A's rights

- (I) Party A is entitled to request Party B to grant loan as agreed in the Contract;
- (II) Party A is entitled to use the loan for the purpose as agreed in the Contract;
- (III) Party A is entitled to apply for loan extension to Party B provided that all conditions required by Party B are satisfied;
- (IV) Party A is entitled to request Party B to keep confidential on the commercial secrets related to its financial affairs, production and operation, unless otherwise stipulated in laws, regulations, rules or by authoritative departments, or agreed separately by both parties;
- (V) Party A is entitled to refuse bribe-seeking act of Party B or its working personnel. Where abovementioned act occurs or Party B violates any laws or regulations related to credit interest rate or service charge, Party A is entitled to report relevant circumstances to relevant departments.

II. Party A's obligations

- (I) Party A shall, as agreed hereunder, withdraw fund, pay off the principal and interest for the loan in full and undertake varied expenses as agreed in the Contract;
- (II) Party A shall, at Party B's request, provide documents related to financial accounting, production and operation status, including but not limited to providing Party B with Balance Sheets of the end of the last season and the Profit and Loss Statement as of the end of last month (Income and Expense Statement for public institution) ten working days prior to the first season of each season, and providing Party B with Annual Cash Flow Statement of the end of each year; and Party A shall guarantee that all documents provided by itself are legal, authentic, complete, accurate and valid without any falsity or concealment from significant operation and financial facts;
- (III) Party A shall notify Party B in writing and provide Party B with documents related to altered circumstance within 3 working days after Party A encounters significant unfavorable events affecting its repayment capability, circumstances endangering creditors' rights of Party B occur, or there is any change in business registration items such as name, legal representative (Person in charge), domicile, business scope, registered capital or Articles of Association of the Company (Enterprise);
- (IV) Party A shall use the loan according to the agreement hereunder. Party A may not occupy, misappropriate the bank loan for illegal and infracting transactions. Party A shall assist Party B in Party B's check and supervision on its production, operation, financial activities and fund utilization and payment status hereunder; Party A may not evade repayment of debts of Party B by secretly withdrawing funds, transferring assets or utilizing connected transactions; Party A may not make use of the false contract with the related parties to discount or pledge on the bills receivable, accounts receivable etc. without actual trading background with the bank, or squeeze bank funds or credits;

(V) Where Party A intends to produce and manufacture with the loan hereunder, it shall abide by State regulations related to environmental protection;

(VI) Before it pays off the principal and interest for Party B's loan, Party A may not, without consent of Party B, provide guaranty to third party with the assets arising from the loan hereunder.

(VII) If Party A is a group, it shall timely report its connected transactions occupying above 10% of its net assets to Party B, including: (1) Connected relations among transacted parties; (2) Transaction projects and nature; (3) Transaction amount or corresponding scale; (4) Pricing policy (including transaction without sum or with token sum only);

(VIII) Party A shall guarantee that the projects proposed to be built have been approved by the relevant governmental authorities and are free from any illegal situations and that the capital or other raised funds are prepared as scheduled and ensure that the capital with the same proportion as that of loan have prepared and the use of which shall match to that of loan; and ensure to complete the schedule as planed;

(IX) Before its establishment, split-up, stock right transfer, external investment, material increase in debt financing or occurrence of other significant matter, Party A shall obtain written consent from Party B. But Party B's written consent does not mean that the remedial measures agreed hereunder for future events will be affected. In these events, Party B believes the abovementioned acts might endanger the safety of its creditor's rights;

(X) Party A shall consider a (2) [optional, fill in with (1) month or (2) quarter] as one cycle and regularly report the status on payment of loan to Party B. Party A shall report the status on payment of loan to Party B of last (2) [optional, fill in with (1) month or (2) quarter] within ten working days no later than the beginning of each (2) [optional, fill in with (1) month or (2) quarter].

(XI) Party A shall coordinate and cooperate with Party B to inspect and supervise the production, operation, financial activities and operating status of sponsors of the Project and to require the sponsors of the Project cooperating with Party B to conduct the abovementioned inspections and supervision.

Article 9 Party B's rights and obligations

I. Party B is entitled to request Party A to repay the principal and interest, expenses for the loan on schedule; Party B is entitled to manage and control the payment of loan fund and carry out dynamic monitoring on overall cash flow of Party A; Party B is entitled to perform other rights as agreed hereunder and request Party A to perform other obligations hereunder;

II. Party B shall grant loan as agreed hereunder, except for the delay or failure for Party A's sake or due to some reasons other than Party B's reasons;

III. Party B shall keep confidential on the commercial secrets related to its financial affairs, production and operation, unless it is otherwise stipulated in laws, regulations, rules or by authoritative departments, or agreed separately by both parties;

IV. Party B may not provide bribes to or claim or receive bribes from Party A and its working personnel;

V. Party B must adhere to good faith and may not endanger Party A's legal rights and interests.

Article 10 Liabilities for Breaching of Contract and remedial measures for The Circumstances Endangering the Creditor's Rights of Party B

I. Circumstances where Party B breaches the contract and relevant breaching liabilities

(I) Where Party B does not grant loan as agreed hereunder without justified reasons, Party A may request Party B to continue on loan granting as agreed hereunder;

(II) Where Party B, in violation of State laws, rules or other prohibitive provisions, collect interests or expenses that may not be collected from Party A, Party A is entitled to request Party B to return relevant funds.

II. Circumstances where Party A breaches the contract and relevant breaching liabilities

(I) Party A violates either agreement hereunder or fails to perform either statutory obligation;

(II) Party A clearly states or indicates through its behavior that it will not perform any obligation agreed hereunder.

III. Circumstances that may endanger the creditor's rights of Party B

(I) Party B believes that the safety of its creditor's rights hereunder may be endangered when either of the following circumstances occurs: there is contracting, trusteeship (takeover), tenancy, shareholding reform, decrease in registered capital, investment, joint operation, consolidation, merger, acquisition, reorganization, split-up, joint venture, stock right transfer, material increase in debt financing of Party A; Party A submits application(or is ordered) to suspend business before rectification, applies for dissolution or is cancelled by relevant authorities; Party A submits application (or is ordered) to go bankruptcy; there is alteration in Party A's shareholders/actual controller or there is significant asset transfer, halt production or close-down; Party A is fined with high sum by authoritative departments; Party A's registration or its business license is canceled; Party A is involved in significant legal disputes; there is significant difficulty in Party A's production and operation or there is deterioration in Party A's financial status; there is a decrease in Party A's credit status; or legal representative or main person in charge of Party A is unable to perform his/her duties as usual;

(II) Party B believes that the safety of its creditor's rights hereunder may be endangered when either of the following circumstances occurs: Party A fails to fulfill other due debts (including due debts of organization of China Construction Bank at each level and of other third parties); Party A transfers its assets at low price or without compensation; Party A reduces or cancels debts of the third party; Party A is indolent in exercising credit right or other rights or provide guaranty for the third party; Party A's financial indicators does not in continuous compliance with "Restrictive Provisions on Financial Indicators" listed in Attachment 2; Party A does not pay the loan fund as agreed hereunder or avoid Party B's entrustment payment in a piecemeal manner; The project progress falls behind that of

the use of fund; there are abnormal fluctuations in either account under Party A (including but not limited to the fund return account and other accounts under Party B's supervision).

(III) Party B believes that the safety of its creditor's rights hereunder may be endangered if Party A's shareholder evades debts by misusing independent status of the corporate judicial person or the limited liability of shareholder(s);

(IV) Any precondition for loan granting as agreed hereunder is not being satisfied continuously;

(V) Party B believes that the safety of its creditor's rights hereunder may be endangered if any of the following events related to the guarantor occurs:

1. The guarantor violates any agreement hereunder or there is any falsity, mistake or omission in his/her statement or warranty;

2. There is contracting, trusteeship (takeover), tenancy, shareholding reform, decrease in registered capital, investment, joint operation, consolidation, merger, acquisition and reorganization, split-up, joint venture, stock right transfer, material increase in debt financing of the guarantor; the guarantor submits application (or is ordered) to suspend business before rectification, applies for dissolution or is cancelled by relevant authorities; the guarantor submits application (or is ordered) to go bankruptcy; there is alteration in the guarantor's shareholders/actual controller; the guarantor transfers its significant asset; there is halt production or close-down in the guarantor; the guarantor is fined with high sum by relevant authoritative departments; the guarantor's registration or its business license is canceled; the guarantor is involved in significant legal disputes; there is significant difficulty in the guarantor's production and operation or there is deterioration in the guarantor's financial status; there is a decrease in the guarantor's credit status; or legal representative or main person in charge of the guarantor is unable to perform his/her duties as usual; and other matters that may affect guarantee capabilities of the guarantor occur;

3. Other circumstances that may result in the guarantor's loss of guarantee capabilities occur;

(VI) Party B believes that the safety of its creditor's rights hereunder may be endangered if any of the following circumstances related to mortgage or pledge occurs:

1. The mortgaged property or pledged property is damaged, lost or decreased in value due to the act of a third party, national collection, confiscation, expropriation, withdrawal without compensation, demolition, change in market quotation or other causes;

2. The mortgaged property or pledged property is sealed up, seized, frozen, deducted, detained, auctioned, placed under the supervision of administrative department or involved in disputes of proprietorship;

3. The mortgagor or pledger violates any agreement under the mortgage contract or pledge contract, or there is any falsity, mistake or omission in his/her statement or warranty;

4. Other circumstances that may endanger the realization of the right of mortgage or pledge of Party B occur;

(VII) The warranty is rootless, ineffective, invalid, revoked, rescinded; the warrantor breaches the contract or clearly states or indicates through its behavior that it will not perform its obligation under warranty; the warrantor loses its ability of warranty in part or in full; there is decrease in the value of the warranted property or other circumstances that may endanger the safety of creditor's right hereunder according to Party B; or

(VIII) Other circumstances that may endanger the safety of creditor's right hereunder according to Party B occur.

IV. Remedial Measures of Party B

Where any circumstance listed in Article 9.II or Article 9.III occurs, Party B is entitled to perform one or several rights as follows:

(I) Stop granting loan;

(II) Announce that the loan is due immediately, demanding Party A repay all principals, interests and expenses of the loan that is due or not yet due at once;

(III) Where Party A fails to utilize the loan as agreed hereunder, Party B is entitled to demand Party A pay penalty fine equivalent to 5% of the sum that has not been utilized as agreed and it is entitled to refuse Party B to utilize undrawn fund hereunder;

(IV) Where Party A fails to use the loan for the purpose as agreed hereunder, interest or double interest shall be imposed based on penalty interest rate and interest settlement method as agreed hereunder upon the sum embezzled by Party A since the date it fails to use the loan for the purpose as agreed hereunder to the date when all principals and interests are paid off;

(V) Where Party A fails to repay the loan in time, interest or double interest shall be imposed based on penalty interest rate and interest settlement method as agreed hereunder upon the principal and interest of the due loan of Party A (including the principal and interest of the loan due ahead of time announced by Party B) since the due date until the date when all principals and interests are paid off. By saying Party A fails to repay the loan in time, it means that Party A fails to repay the loan on schedule or repays the loan in more installments than those in the principal repayment plan in installment as agreed hereunder.

Before the loan is due, double interest shall be imposed based on the interest rate and interest settlement method as agreed hereunder upon the interest that Party A fails to repay on schedule;

(VI) Other remedial measures, including but not limited to:

1. Party B may deduct corresponding sum in RMB or in other currency from the account opened by Party A in the China Construction Bank system without necessity to notify Party A in advance;

2. Party B may perform its warranty rights;

3. Party B may demand Party A provide new warranty upon all loans hereunder in compliance with the requirements of Party B;

4. Rescind the Contract.

Article 11 Other Provisions

I. Bearing of Relevant Expenses

All expenses arising from breaching acts of Party A of any agreement hereunder (including but not limited to the legal costs, arbitration fees, property preservation fee, travel charge, enforcement fee, assessment fee, auction fee, notarization fees, delivery fee, announcement fee, lawyer fees of Party B actually occurs due to Party A's default) shall be borne by Party A;

For other fees, Party A and Party B hereby reach agreement as follows: unless otherwise agreement agreed in contract, all expenses hereunder arising from trusteeship, appraisal, notarization, lawyers' service, insurance et cetera related to financing (if any) hereunder or other expenses that can be undertaken by the financing party according to relevant laws, regulations and rules shall be borne by Party A; while all expenses arising from Party B's due diligence in financing hereunder shall be borne by Party B.

II. Use of Party A's Information

Party A agrees Party B to inquire Party A's credit status from the credit database of the People's Bank of China and those approved establishments by the administrative department of credit investigation or from the relevant entities and agencies, and agrees Party B to provide Party A's information to the credit database of the People's Bank of China and those approved establishments by the administrative department of credit investigation. Party A further agrees that Party B may properly use and disclose Party A's information for the business demands.

III. Announcement for Collection

As to Party A's default on principal and interest, Party B shall be entitled to not only notify the relevant authorities or entities of the same but also announce the collection through the news media.

IV. Effectiveness of Evidence Recorded by Party B

Party B's internal accounting records in relation to the principal, the interest, the charges and the records of repayment, the bills and vouchers made or maintained by Party B in the process of withdrawal, repayment and payment of interest handled by Party A and the records and vouchers for collection of loan by Party B shall constitute the determinate evidence that may validly prove the relations of the creditor's rights between Party A and Party B unless there is any reliable and determinate evidence to the contrary. Party A shall not propose any objection only for the reason that the abovementioned records, bills and vouchers are made or maintained by Party B unilaterally.

V. Reservation of Rights

Party B's rights under this contract shall not impact on or exclude any other rights enjoyed by Party B according to the laws, regulations and other contracts. Any tolerance, grace, discount or delayed exercise of any right under this contract for any default or delayed act shall neither be deemed as waiver of any right or interest under this contract or as agreement or permission of such act of breach of this contract, nor impact on, prevent from and hamper continuous exercise of such right or any other right. Party B will assume no liabilities and obligations for Party A.

VI. Other than the debts under the Contract, Party A shall be liable for other due debts to Party B, Party B shall be entitled to transfer and collect the funds in RMB or other foreign currency from the account opened in the system of China Construction Bank and first use the same to discharge the due debts and Party A shall not have any objection.

VII. Where Party A's mailing address or contact information changes, Party A shall immediately notify Party B in writing and any loss arising out of delayed notification shall be assumed by Party A.

VIII. Collection of Funds Payable

As to all funds payable by Party A under this contract, Party B shall be entitled to collect the funds in RMB or other currency from the accounts opened in the system of China Construction Bank by Party A without notification of Party A in advance. If the procedures in relation of foreign exchange settlement or transaction, Party A shall be obligatory to assist Party B in completion of the same and the risks of foreign exchange rate shall be assumed by Party A.

IX. Methods of Settlement of Disputes

Any dispute arising in the process of execution of this contract may be settled through negotiation. In case of failure in negotiation, such dispute shall be settled subject to the 1st method as follows:

1. To file the lawsuit to Party B's local people's court;

2. To apply for arbitration to the NO ENTRIES HEREIN Arbitration Committee (arbitration place: NO ENTRIES HEREIN) according to the current valid rules of arbitration of such committee when carrying on the application. The awards of arbitration shall be final and binding on the parties hereto.

During the period of the lawsuit or the arbitration, the articles of this contract not involving in the disputes shall be executed continuously.

X. Effective Conditions for This Contract

This contract shall have come into effect since Party A's legal representative (or principal) or authorized signatory affixed the signature or the common seal hereto and Party B's legal representative (Person in charge) or authorized signatory affixed the signature or the common seal hereto.

XI. This contract shall be made in three copies.

XII. Other Provisions Agreed

(I) Agreement on value-added tax

1. All priced fund plus additional fees hereunder are priced with value-added tax taken into consideration, unless otherwise agreed by parties concerned.

2. Invoice

2.1 Party B shall issue invoice according to the item (1) as follows:

(1) If Party A requests for invoice, Party B shall, after it receives Party A's payment, issue value-added tax invoice for corresponding payment sum to Party A according to laws.

(2) Other agreement: NO ENTRIES HEREIN

2.2 Information of invoice provided by Party A

Corporate Name (full name): Skechers Taicang Trading and Logistics Co., Ltd.

Taxpayer identification No. 91320585MA1NRK8B2R

Bank account: [*]

Bank of deposit: Taicang Fuqiao Sub-branch of Bank of China Limited

Address: Room 601~78, No.20, Bei Huan Road, Taicang Port Economic and Technological Development Zone

Telephone: 18115578877

2.3 Where there is any need for invalidating invoice or issuing invoice in red letter, Party A shall provide assistance in accordance with Party B's requirements. Where it fails for Party A's sake, Party A shall fully compensate Party B for all its loss, including but not limited to taxes, additional tax, penalty and overdue fine.

3. If Party A is an organization beyond the territory of the People's Republic of China, and the priced fund and additional fees hereunder apply to tax preference policy stipulated in laws, regulations, rules or by relevant departments and call for taxation registration, Party A shall, according to Party B's requirements, provide Party B with sufficient and accurate registration documents for value-added tax preference in the latter's work in taxation registration et cetera.

(II) Agreed Article for Service

Party A and Party B make the arrangements for the addresses of service and legal consequences of the various notices, agreements and documents in relation to this contract:

1. Addresses of Service:

(1) Party A confirms its valid address of service as follows:

(With the stamp of Skechers Taicang Trading and Logistics Co., Ltd. [*])

Specific Address: [hw:] 28F, Bao Li Ke Luo Wei, Zhongjing Building A, No. 406 Hua Sui Road, Tianhe District, Guangzhou, Guangdong Post Code: [hw:] 510000 ; Recipient (Designated Receiver): Chen Tian

; Contact Phone Number: [hw:] 020-89160222

(2) Party B confirms its valid address of service as follows:

Specific Address: No. 44, Xianfu Street, Taicang City; Post Code: [hw:] 215400 ; Recipient (Designated Receiver): [Signature]: [Illegible]

; Contact Telephone: [hw:] 15995588299

* Confidential Portions Omitted and Filed Separately with the Commission.

2. Applicable Scope of Addresses of Service

The abovementioned addresses of service shall be applicable to the service of various notices, agreements and documents in relation to this contract, including but not limited to the service of various documents such as notices and agreements, the service of the relevant documents and legal papers in case of any disputes arising out of the contract and the service of relevant documents of the first and second trials and retrials, the procedures of execution and other procedures after entry into the arbitration or civil proceedings.

3. Changes in the Address of Service

(1) Where Party A needs to change the address of service, Party A shall notify Party B in writing 10 days in advance and such written notice shall be sent to Party B's address of service.

(2) Where Party B needs to change the address of service, Party B shall notify Party A on the phone or in writing.

(3) Either party changes its address in the process of arbitration or civil proceedings, such party shall perform the obligation to notify the arbitration institution or the court in writing.

(4) After either party performs the obligation to send the notice of change, the address after change shall be deemed as such party's valid address of service, otherwise, the address confirmed before shall be its valid address of service.

4. Legal Consequences

(1) If the various documents such as the notices, agreements and legal papers are not received by either party in fact because the address of service confirmed is not accurate, the obligation of notification is not performed according to the abovementioned manner after change in the address of service or such party or the recipient designated refuses to accept the same, and the notices are sent by post, the day of return shall be deemed as the day of service; if the notices are sent in person, the day when the delivery person records in the receipt for service shall be deemed as the day of service.

(2) As to the abovementioned address, the arbitration institution or the court may directly send the documents by post, even if the concerned parties fail to receive the documents sent by the arbitration institution or the court, it shall be deemed as service due to the abovementioned articles.

(III) The signatures of the legal representatives (Persons in charge) or authorized persons of the parties hereto specified in the article named "Effective Conditions for This Contract" may be replaced by the individual seal.

(IV) If Party A' credit status deteriorates, including but not limited to Party A's default and the situations endangering the creditor's rights of Party B agreed herein, as to the single payment for financing provided to Party A by Party B, Party B shall be entitled to adjust the grant amount or refuse grant of loan unilaterally. Party A promises to have no objection to the foregoing arrangements.

(V) Supplementary explanations to the loan interest rate (IV): the floating interest rate will be reassessed according to the changes in the interest rate every 12 months, namely 10% downward of the applicable benchmark interest rate on the day of adjustment.

Article 12 Provisions on declaration

I. Party A clearly knows Party B's business scope and authorization.

II. Party A has read all articles under this contract. At the request of Party A, Party B has explained the corresponding articles under this contract. Party A has fully known and understood the legal means and the corresponding legal consequences of articles under this contract.

III. Party A's signing and performing obligations hereunder comply with laws, administrative regulations, rules and the Articles of Association or internal organization documents of Party A with the approval obtained from the internal authority of the company and/or authoritative department of the State.

IV. Party A satisfies the requirements of the State on project investment subject qualification and operation qualification.

V. The Project conforms to the relevant national policies of industry, land, environmental protection and investment management and Party A has performed the legal management procedures of the Project;

VI. The Project invested by Party A conforms to the provisions of the national capital assets system in relation to the investments projects;

VII. Party A and its controlling shareholder(s) are in good credit standing without significant adverse records.

VIII. Party A declares that neither Party A nor its significant related parties breach any laws, regulations or rules related to environmental and social risk management. Party A also promises that, after signing the Contract, it will enhance the environmental and social risk management of both its significant related parties and itself. By stringently abiding by laws, regulations and rules related to environmental and social risk management, they will not bring damage or relevant risks to the environment and the society in their construction, production and operation (including but not limited to environment and social issues related to energy consumption, pollution, land, health, safety, migrant resettlement, ecological protection, energy saving and emission reduction, climate change). Party A accepts Party B's rights in monitoring Party A's environmental and social risk management, requiring Party A's submission on environmental and social risk report. Where any abovementioned declaration contains falsity, any abovementioned promise is not fulfilled or Party A may cause risks to the environment and society, Party B is entitled to stop giving credit to Party A (including but not limited to refusal to grant loan, provide financing or issue L/G, L/C or bank acceptance bills) or announce its creditor's rights (including but not limited to loan, financing or previous or future advances) by claiming that relevant principal and interest are due ahead of time, or take remedial measures as agreed hereunder or permitted by laws.

[illegible stamp]

Party A (Official Stamp):

(With the stamp of Skechers Taicang Trading and Logistics Co., Ltd. 3205852018071)

Legal Representative (Person in Charge) or Authorized Signatory (Signature): [signatures]

[hw:] September 29, 2018

Party B (Official Stamp):

(With the stamp of Taicang Branch of China Construction Bank Corporation)

Person in Charge or Authorized Signatory (Signature): [signature]

[hw:] September 29, 2018

Appendix 1:

Basic Condition of the Project and Loan

1. Project Name: Newly-built Skechers Logistics Center
2. Total Amount of Investment in the Project: RMB 1,154,734,000.00

RMB (Amount in words) One billion, one hundred and fifty-four million, seven hundred and thirty-four thousand Yuan Party A shall not increase the total amount of investment in the project unless Party A provides the certifications in writing and Party B approves the same.

3. Project Place:

Taicang port Economic and Technological Development Zone, north of Tongxiang Road, east of Pingjiang Road, west of the Changjian road

4. Terms of Project Construction and Operation: Construction Term: 2 years; Operation Term: 3 Years
5. Specific Purpose of Loan under the Contract:

For construction of newly-built Skechers Logistics Center

6. Repayment Sources of Loan under the Contract:

(1) The repayment sources of loan under the contract are the incomes from operation and newly-built project and the investment added by Party A's shareholders.

(2) Party A shall use the funds whose sources are mentioned as above to repay the loan under the Contract according to the following agreements (time, frequency and manner, etc.):

The repayments shall be made according to the repayment plan agreed herein.

Party A shall assure the authenticity and legality of the repayment sources and the stability and sufficiency of the cash flow for its repayment.

(With the seal of Taicang Branch of China Construction Bank Corporation)

7. Others: None

Appendix 2:

Restrictive Provisions on Financial Indicators

Party A's financial indicators shall be subject to following restrictive provisions continuously:

1. Its asset-liability ratio shall be no more than 75%;
2. Current ratio for construction period shall be no less than 0.5 while current ratio for operation period shall be no less than 1.0;
3. No external investment may be newly added;
4. No external guarantee may be newly set up;
5. It may not issue any debt with priority over credit-giving service of Party B;
6. Its stock right structure shall remain stable.

After notifying Party A ten working days in advance, Party B is entitled to modify the abovementioned restrictive provisions.

[hw:] 8-1

Maximum Mortgage Contract

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Contract No. XTC-2018-ZGDY-0179

Mortgager (Party A): Skechers Taicang Trading and Logistics Co., Ltd.

Domicile: Room 601~78, No.20, Bei Huan Road, Taicang Port Economic and Technological Development Zone

Post Code: 215400

Legal Representative (Person in charge): Cedrick Tan

Fax:

Telephone: 020-89160222

Mortgagee (Party B): Taicang Branch of China Construction Bank Corporation

[cut off stamp]

Domicile: No. 44, Xianfu Street, Chengxiang Town, Taicang City

Post Code: 215400

Person in charge: Ji Changlong

Fax: 0512-53521573

Telephone: 0512-53521573

Party B will conclude (and/or has concluded) the contract for loan in RMB, the contract for loan in foreign exchange fund, the agreement for banking acceptance, the contract for issue of letters of credit, the agreement for letter of guarantee and/or other legal documents (In the Confirmed Term of Creditor's Rights, the said contracts, agreements and/or other legal documents are hereinafter referred to as the "Main Contracts" collectively) with the Debtor from August 28, 2018 to August 15, 32020 (hereinafter referred to as the "Confirmed Term of Creditor's Rights") for the reason that Party B has handled the following credit business of Items (1) to (5) for Skechers Taicang Trading and Logistics Co., Ltd. (hereinafter referred to as "the Debtor").

[cut off stamp]

(With the stamp of Taicang Branch of China Construction Bank Corporation)

(With the stamp of Skechers Taicang Trading and Logistics Co., Ltd)

- (1) Grant of loan in RMB/ foreign currency;
- (2) Acceptance of trade bills;
- (3) Issue of letters of credit;
- (4) Issue of Letters of Guarantee; and
- (5) Other credit business: financing business for trade and financial management, etc.

Party A would like to provide the guarantee for the maximum amount of the series of debts under the Main Contracts for the Debtor. In accordance with the relevant laws and regulations, Party A and Party B conclude this contract upon consensus through negotiation for joint compliance and execution.

Article 1 Mortgage Property

I. Party A creates the mortgage by virtue of the property specified in the List of Mortgage Property under this contract.

II. Where the certificate (certification) of ownership or other rights of the mortgage property is renewed so that the List of Mortgage Property under this contract or the certificate of other rights (the mortgage right) or the certified documents of the mortgage right received by Party B are different from abovementioned new certificate (certification) of rights or the relevant records on the registration book of the registered authority, Party A shall not refuse to assume the guarantee obligations for this.

III. The outbuilding adding to the mortgage property due to adhesion, mixture, processing and reconstruction or for other reasons shall be as the mortgage guarantee for Party B's creditor's right and Party A shall handle the necessary procedures for mortgage registration according to Party B's requirements unless otherwise agreed by Party A and Party B or required by law.

IV. If the value of the mortgage property has reduced or may reduce, which will impact on the realization of the creditor's right of Party B, Party A shall provide the new guarantee according to Party B's requirements.

Article 2 Scope of Guarantee and Supreme Quota of Creditor's Rights

I. The scope of guarantee of the maximum mortgage of the contract shall be all debts under the Main Contracts, including but not limited to the entire principal, the interest (including the compound interest and the default interest), the liquidated damages, the compensation, other funds payable to Party B by the Debtor (including but not limited to the relevant charges for service and telecommunication and sundry fees paid by Party B in advance and the relevant banking charges under the credit letters that the beneficiary refuses to pay but have been paid by Party B in advance) and all charges incurred by Party B for realization of the creditor's rights and the hypothec (including but not limited to the legal costs, the arbitration fees, the property preservation costs, the travelling expenses, the execution fees, the evaluation fees, the auction fees, the notarization fees, the service fees, the announcement fees and the counsel fees, etc.).

II. The supreme quota of the guarantee obligations under the maximum mortgage of the contract is (currency) RMB (in words) one hundred and thirty-four million, nine hundred and fifty thousand yuan only. If Party A performs the guarantee obligations according to this contract, such supreme quota shall be accordingly reduced subject to the discharged amount.

III. Even if the actual time of formation of the loan, the advances, the interest and the charges under the Main Contracts or any other creditor's rights of Party B exceeds the Confirmed Term of Creditor's Rights, they shall be still in the scope of guarantee under this contract. The deadline for performance of debts under the Main Contracts shall not be limited to the expiry date of the Confirmed Term of Creditor's Rights.

Article 3 Registration of Mortgage Property

The parties hereto shall handle the mortgage registration procedures with the corresponding registration authority within five working days from the day of the conclusion of this contract. Party A shall deliver the originals of the certificate of other rights of the mortgage property, the mortgage registration documents and certificates of other title to Party B on the date of completion of registration.

Article 4 Change of Main Contracts

I. Party A agrees that if Party B and the Debtor conclude the Main Contracts or further change the Main Contracts (including but not limited to extension of fulfillment of debts or increase in the amount of the principal of the creditor's right), Party A needn't be informed and that Party A shall still undertake the guarantee obligations in the scope of the maximum mortgage and guarantee agreed in this contract.

II. Change of the Party Concerned

Party A's guarantee obligations shall not be deducted and exempted for any one of the following reasons:

- (1) Party B or the Debtor carries out the reformation of system, the combination, the merger, the division, the increase or decrease in capital, the joint venture, the joint operation or the change in name, etc.;
- (2) Party B authorizes the third party to perform its obligations under the Main Contracts.

III. Where the creditor's rights under the Main Contracts are assigned to the third party, the guarantee under this contract shall be assigned together and Party A shall assist Party B and such third party to handle the procedures for the mortgage change registration required by the law.

IV. Where the transfer of the creditor's rights or debts under the Main Contracts has not come into effect yet or is void, revoked or dissolved, Party A shall still undertake the guarantee obligations to Party B according to this contract.

Article 5 Possession and Custody of Mortgage Property

I. Party A shall properly occupy, keep, repair and maintain the mortgage property, reasonably use the mortgage property, maintain the mortgage property in good condition, and pay the various taxes in relation to the mortgage property. Party B shall be entitled to check the mortgage property and require Party A to deliver the originals of the document of title of the mortgage property to Party B for custody.

II. Where Party A shall authorize or agree the third party to occupy, keep and use the mortgage property, Party A shall notify the third party of the existence of Party B's mortgage right, and require the third party to keep the mortgage property in good condition, accept the check on the mortgage property by Party B and not hamper the realization of Party B's mortgage rights. Party A's obligations in the preceding article shall not be exempted. Meanwhile, Party A shall be liable for the third party's acts.

III. Where the mortgage property causes the personal injury or the property damage, Party A shall be liable for compensation. If Party B suffers from the claim and assumes the liabilities due to this or advances Party A for the compensation, Party B shall be entitled to claim recovery from Party A.

Article 6 Insurance of Mortgage Property

I. Party A shall handle the insurance for the mortgage property according to the relevant laws and subject to the types of insurance, the term of insurance and the insurance amount designated by Party B unless otherwise agreed by the parties hereto. The insurer shall have the legal qualification and the good reputation.

II. The contents of the insurance policy shall satisfy Party B's requirements and shall not have the limited conditions damaging Party B's rights and interests. It shall be specially specified in the insurance policy as follows: Party B is the preferred beneficiary (the first beneficiary) of the insurance compensation; the insurance policy shall not be changed without the written approval of Party B; in case of the insurance accidents, the insurer shall directly transfer the insurance compensation to the account designated by Party B. If the mortgage property has been insured but the foregoing contents have not specified in the insurance policy, the corresponding endorsement or change shall be made to the insurance policy.

III. Party A shall ensure the continuity and validity of the insurance, and shall not make the interruption, cancellation or invalidity of the insurance or make the insurer reduce or exempt the liabilities for compensation for any reason, or change the insurance policy without Party B's consent. If the term of insurance expires but the creditor's rights guaranteed by Party A are not discharged, Party A shall renew the insurance and extend the term of insurance.

IV. Party A shall deliver the original of the insurance policy in relation to the mortgage property to Party B within five working days as from the day of conclusion of this contract (if the insurance for the mortgage property is renewed, as from the day of completion of renewal of insurance) and leave the necessary documents in relation to the insurance claim or for assignment of the insurance rights and interests to Party B in advance.

V. As to the insurance compensation acquired for the mortgage property, Party B shall be entitled to choose the following approaches to dispose of it and Party A shall assist in handling the relevant procedures:

- (1) Upon approval of Party B, repair the mortgage property in order to recover the value of the mortgage property;
- (2) Pay off the principal, the interest and the relevant charges of debts under the Main Contracts or pay off them in advance;
- (3) Provide with the pledge guarantee for the debts under the main contracts;
- (4) Party A may freely dispose of the insurance compensation after providing the new guarantee satisfying Party B's requirements.

Article 7 Restrictions on Disposal of Mortgage Property by Party A

I. Without Party B's written permission, Party A shall not dispose of the mortgage property in any manner, including but not limited to waiver, lease (including renewal of the previous lease contract after expiration), gift, assignment, capital contribution, repeating guarantee, removal, changing the purpose to the public benefit, accretion of other objects or reconstruction and division.

II. The proceeds or other funds acquired by Party A from disposal of the mortgage property with Party B's written permission shall be deposited to the account designated by Party B. Party B shall be entitled to dispose of such proceeds or funds with the method specified in Items (2) to (4) of Sub-article V under Article 6 herein and Party A shall assist in handling the relevant procedures.

Article 8 Obstruction from the Third Parties

I. Where the mortgage property is collected, expropriated, dismantled, confiscated or recovered without compensation by the state, or the mortgage property is seized, frozen, detained, supervised, retained, auctioned, deforced, destroyed or disposed in other manner, Party A shall immediately notify Party B and adopt the measures of stop, elimination or remediation in time in order to prevent the losses from expansion. At the request of Party B, Party A shall provide the new guarantee satisfying Party B's requirements.

II. After the situations specified in the preceding paragraph occur on the mortgage property, the residua shall be still as the mortgage guarantee for Party B's creditor's rights. Any indemnity or compensation acquired by Party A for the said reasons shall be deposited to the account designated by Party B. Party B shall be entitled to dispose of such indemnity or compensation with the method specified in Items (1) to (4) of Sub-article V under Article 6 herein and Party A shall assist in handling the relevant procedures.

Article 9 Realization of Mortgage Rights

I. Where the Debtor fails to discharge the due debts under the Main Contracts or the debts being declared of acceleration of maturity, or to observe other agreements under the Main Contracts, Party B shall be entitled to dispose of the mortgage property.

II. The value of the mortgage property specified in the *List of Mortgage Property* under this contract or separately agreed by the parties hereto (hereinafter referred to as the "Provisional Value"), shall not be the final value of the mortgage property, no matter whether or not the Provisional Value is recorded in the registration book of the registration authority. The final value of the mortgage property shall be the net amount of the proceeds acquired by Party B from disposal of the mortgage property minus the various taxes.

Where the mortgage property is used to compensate for the creditor's rights of Party B, the forgoing said Provisional Value shall not be considered as the basis that the mortgage property compensates for the creditor's rights of Party B. Then the value of the mortgage property shall be determined by the Parties hereto through negotiation or appraised according to law.

III. The proceeds acquired by Party B from disposal of the mortgage property shall be first used to pay off the debts under the Main Contracts after payment for expenses spent in the process of sale or auction (including but not limited to the charges of custodian, appraisal, auction and transfer, the taxes, the payment for transfer of the use right of the state-owned land, etc.) and the balance will be returned to Party A.

IV. Where Party A and the Debtor are the same person, Party B may apply for enforcement to Party A's property other than the mortgage property on the premise that Party B needn't waive the mortgage rights or dispose of the mortgage property first.

V. Party A shall not obstruct Party B in realization of mortgage rights in any manner (including the action or non-action).

VI. No matter whether or not Party B has other guarantee for the creditor's rights under the Main Contracts (including but not limited to the guarantee manners of the warranty, the mortgage, the pledge, the letter of guarantee, the standby letter of credit, etc.), or no matter when other guarantee mentioned above is established, whether or not other guarantee mentioned above is valid, or whether or not Party B claims against others, or whether or not there is the third party agreeing to undertake the entire or partial debts under the Main Contracts, or whether or not other guarantee is provided by the Debtor, any one of Party A's guarantee obligations under this contract shall not be deducted or exempted. Party B may directly require Party A to perform its guarantee obligations in its scope of guarantee according to the agreements herein, and Party A shall not propose any objection.

VII. Where the maximum amount of the guarantee obligations agreed in this contract is less than the balance of the creditor's rights under the Main Contracts actually incurred, and the creditor's rights under the Main Contracts have not been realized in full after Party A performs its guarantee obligations, Party A promises to claim (including exercise in advance) the right of subrogation or recourse against the Debtor or other guarantors in order not to make Party B's interests suffer from any damage, and agrees that the discharge of debts under the Main Contracts precedes over the realization of Party A's right of subrogation or resource.

More precisely, before the creditor's rights of Party B are fully realized,

(1) Party A agrees not to claim the right of subrogation or recourse against the Debtor or other guarantors; in case Party A realizes the above-said rights for any reason, Party A shall first use the funds acquired to realize the creditor's rights of Party B unrealized yet.

(2) In case that there is the collateral for the debts under the Main Contracts, Party A agrees not to claim on the incomes arising out of disposal of such collateral due to exercise of the right of subrogation or recourse or for any other reasons, and further agrees that the above-said collateral and the incomes of which shall be first used to realize the creditor's rights of Party B unrealized yet.

(3) Where the Debtor or other guarantors provide the counter guarantee for Party A, Party A shall first use the funds acquired from such counter guarantee to realize the creditor's rights of Party B unrealized yet.

VIII. If the Main Contracts are invalid, inoperative, void or partially void, or to be revoked or dissolved, and Party A and the Debtor are not the same person, Party A shall undertake the joint obligations with the Debtor for the debts incurred by the Debtor due to return of property or compensation for loss in the scope of guarantee agreed in this contract.

IX. Party A has fully realized the risk of interest rate. If Party B adjusts the level of interest rate, the manner of calculation or settlement of interest according to the agreements under the Main Contracts or the changes in the national policies on interest rate so that the interest, the default interest or the compound interest repayable by the Debtor increases, Party A shall undertake the joint obligations of guarantee for the addition.

X. Where the Debtor shall be liable to Party B for other due debts other than those under the Main Contracts, Party B shall be entitled to collect the funds in RMB or other currency from the accounts opened in the system of China Construction Bank by the Debtor for discharge of any sum of due debts at first. However, Party A's guarantee obligations will not be reduced or exempted due to this.

Article 10 Default Liabilities

I. Party A's Default Liabilities

(1) Where Party A fails to observe any agreement under this contract or the matters guaranteed or stated by Party A are false, incorrect or omitted, Party B shall be entitled to adopt the following one or more measures:

1. To require Party A to correct the acts of noncompliance;
2. To require Party A to provide the new guarantee;
3. To require Party A to compensate for loss;
4. To dispose of the mortgage property;
5. To adopt other measures of relief allowed by the laws.

(II) Party B shall be entitled to dispose of such proceeds or funds acquired from disposing of the mortgage property with the method specified in Items (2) to (4) of Sub-article V under Article 6 herein and Party A shall assist in handling the relevant procedures.

(III) Where the mortgage rights fail to be created for Party A's reasons or the value of the mortgage property is reduced for Party A's reasons, or Party B's mortgage rights are not realized in full or as scheduled for Party A's reasons, and Party A and the Debtor are not the same person, Party B shall be entitled to require Party A to undertake the joint obligations for the guaranteed debts with the Debtors in the scope of guarantee under this contract.

II. Party B's Default Liabilities

If Party B loses the certificates of titles of the mortgage property delivered by Party A due to its default or Party B fails to timely return the certificates of titles of the mortgage property or assist in handling the procedures for cancellation of the mortgage registration according to law when Party A submits an application after discharge of the debts under the Main Contracts, Party A shall be entitled to adopt the following one or more measures:

- (1) To require Party B to assume the charges for reissue of the certificates of titles of the mortgage property;
- (2) To require Party B to return the certificates of titles of the mortgage property or to assist in handling the procedures for cancellation of the mortgage registration within the time limit.

XI. Other Provisions

I. Expenses Undertaking

1. The expenses incurred due to failure in compliance of any agreements of this contract by Party A (including but not limited to the legal costs, the arbitration fees, the property preservation costs, the travelling expenses, the execution fees, the evaluation fees, the auction fees, the notarization fees, the service fees, the announcement fees and the counsel fees, etc. incurred actually by Party B due to Party A's defaults) shall be assumed by Party A;

2. As to other charges, the parties hereto agreed as follows: Unless otherwise agreed by the contract, the charges of occupancy, management, disposal, notarization, insurance, transportation, storage, custody, repair, maintenance, auction and transfer, etc. in relation to the mortgaged property under this contract (if any) shall be assumed by Party A.

II. Collection of Funds Payable

As to all funds payable by Party A under this contract, Party B shall be entitled to collect the funds in RMB or other currency from the accounts opened in the system of China Construction Bank by Party A without notification of Party A in advance. If the procedures in relation to foreign exchange settlement or transaction are required,

Party A shall be obligatory to assist Party B in completion of the procedures and the risks of foreign exchange rate shall be assumed by Party A.

III. Use of Party A's Information

Party A agrees Party B to inquire Party A's credit status from the credit database of the People's Bank of China and those approved establishment by credit authorities or from the relevant entities and agencies, and agrees Party B to provide Party A's information to the credit database of the People's Bank of China and those approved establishment by credit authorities. Party A further agrees that Party B may properly use and disclose Party A's information for the business demands.

IV. Announcement for Collection

As to Party A's default, Party B shall be entitled to not only notify the relevant authorities or entities of the same but also announce the collection through the news media.

V. Effectiveness of Evidence Recorded by Party B

Party B's internal accounting records in relation to the principal, the interest, the charges and the records of repayment, the bills and vouchers made or maintained by Party B in the process of withdrawal, repayment and payment of interest handled by the Debtor, and the records and vouchers for collection of loan by Party B shall constitute the determinate evidence that may validly prove the relations of the creditor's rights under the Main Contracts unless there is any reliable and determinate evidence to the contrary. Party A shall not propose any objection only for the reason that the said records, bills and vouchers are made or maintained by Party B unilaterally.

VI. Reservation of Rights

Party B's rights under this contract shall not impact on or exclude any other rights enjoyed by Party B according to the laws, regulations and other contracts. Any tolerance, grace, discount or delayed exercise of any right under this contract for any default or delayed act shall neither be deemed as waiver of any right or interest under this contract or as agreement or permission of such act of breach of this contract, nor impact on, prevent from and hamper continuous exercise of such right or any other right or make Party B assume any liabilities and obligations for Party A.

Where Party B does not or delays exercise of any rights under the Main Contracts or does not use any remedy under the Main Contracts, Party A's guarantee obligations under this contract shall not be reduced or exempted due to this. However, if Party B reduces or exempts the debts under the Main Contracts, Party A's guarantee obligations under this contract shall be reduced or exempted accordingly.

VII. Where Party A separates, disband, begins the bankruptcy proceedings, or is abolished, cancelled the industrial and commercial registration or revoked the business license, or the mortgage property is destroyed, lost, encroached or out of Party A's control due to the natural factors or the acts of the third party, or the ownership of the mortgage property has the disputes or the certificates of titles of the mortgage property are cancelled, Party B shall be immediately notified.

VIII. Debtor's Disbandment or Bankruptcy

After Party A knows that the Debtor begins the procedures of disbandment or bankruptcy, Party A shall immediately notify Party B of declaration of the creditor's rights, timely participate in the procedures of disbandment or bankruptcy and exercise the right of recourse in advance. In case Party A knows or should know that the Debtor begins the procedures of disbandment or bankruptcy but fails to exercise the right of recourse in advance, the losses shall be assumed by Party A.

Despite of the agreements of Sub-article 2 under Article V herein, in the procedures of the Debtor's bankruptcy, if Party B concludes the settlement agreement with the Debtor, or agrees with the plan of reorganization, Party B's rights under this contract shall not be damaged due to the settlement agreement or the plan of reorganization and Party A's guarantee obligations shall not be reduced or exempted. Party A shall not withstand Party B's claims by virtue of the conditions stipulated in the agreement of settlement or the plan of reorganization. As to the parts of the creditor's rights that are not realized after Party B make the concession in the agreement of settlement or the plan of reorganization, Party B shall be entitled to require Party A to assume the guarantee obligations continuously.

IX. Party A's Disbandment or Bankruptcy

In case of Party A's disbandment or bankruptcy, even if Party B's creditor's rights under the Main Contract have not expired yet, Party B shall be entitled to participate in the Party A's procedures of liquidation or bankruptcy and declare the rights.

X. Where Party A's mailing address or contact information changes, Party A shall immediately notify Party B in writing and any loss arising out of delayed notification shall be assumed by Party A.

XI. Other Provisions Agreed

(I) Where the registered items of the mortgage property change and there is need to change the registration according to law, Party A shall handle the procedures for changes in registration with Party B according to Party B's requirements.

(II) The scope of guarantee agreed herein shall be the total amount of tax price including the value-added tax.

(III) Agreed Article for Service

Party A and Party B make the agreements for the addresses of service and legal consequences of the various notices, agreements and documents in relation to this contract:

1. Addresses of Service:

(1) Party A confirms its valid address of service as follows:

Specific Address: [handwritten:] 28F, Bao Li Ke Luo Wei, Zhongjing Building A, No. 406 Hua Sui Road, Tianhe District, Guangzhou, Guangdong;

Post Code: [handwritten:] 510000;

Recipient (Designated Receiver): [handwritten:] Chen Tian;

Contact Telephone: [handwritten:] 89160222

(2) Party B confirms its valid address of service as follows:

Specific Address: [handwritten:] No. 44, Xianfu Street, Taicang City;

Post Code: [handwritten:] 215400 ;

Recipient (Designated Receiver): [illegible:];

Contact Telephone: [handwritten:] 15995588299

2. Applicable Scope of Addresses of Service

The above-said addresses of service shall be applicable to the service of various notices, agreements and documents in relation to this contract, including but not limited to the service of various documents such as notices and agreements during the performance of the contract, the service of the relevant documents and legal papers in case of any disputes arising out of the contract and the service of relevant document of the first, second trials and retrial, the procedures of execution and other procedures after entry into the arbitration or civil proceedings.

3. Changes in the Address of Service

(1) Where Party A needs to change the address of service, Party A shall notify Party B in writing 10 working days in advance and such written notice shall be sent to Party B's address of service.

(2) Where Party B needs to change the address of service, Party B shall notify Party A on the phone or in writing.

(3) Either party changes its address in the process of arbitration or civil proceedings, such party shall perform the obligation to notify the arbitration institution or the court in writing.

(4) After either party performs the obligation to send the notice of change, the address after change shall be deemed as such party's valid address of service, otherwise, the address confirmed before shall be its valid address of service.

4. Legal Consequences

(1) Where the various documents such as the notices, agreements and legal papers are not received by either party in fact because the address of service provided or confirmed by either party is not accurate, the obligation of notification is not performed according to the above-said manner after change in the address of service or such party or the recipient designated refuse to accept the documents, if the notices are sent by post, the day of return shall be deemed as the day of service; if the notices are sent in person, the day when the delivery person records in the receipt for service shall be deemed as the day of service.

(2) As to the above-said address, the arbitration institution or the court may directly send the documents by post, even if the concerned parties fail to receive the documents sent by the arbitration institution or the court, it shall be deemed as service due to the articles mentioned above.

NO ENTRIES HEREIN

XII. Manner of Settlement of Disputes

Any dispute arising in the process of execution of this contract may be settled through negotiation. In case of failure in negotiation, such dispute shall be settled subject to the 1st manner as follows (during the period of the lawsuit or the arbitration, the articles of this contract not involving in the disputes shall be executed continuously):

1. To file the lawsuit to Party B's local people's court;
2. To apply for arbitration to the _____ Arbitration Committee (arbitration place: _____) according to the current valid rules of arbitration of such committee when application. The decision of arbitration shall be final and binding on both parties hereto.

XIII. Effective Conditions for This Contract

This contract shall have come into effect since Party A's legal representative (or person in charge) or authorized signatory affixed the signature or the official stamp hereto and Party B's person in charge or authorized signatory affixed the signature or the official stamp hereto.

XIV. This contract shall be made in three copies.

Article 12 List of Mortgage Property

The List of Mortgage Property under this contract shall refer to the appendix.

Article 13 Party A's Statement and Warranty

I. Party A clearly knows Party B's business scope and authorization.

II. Party A has read all articles under this contract and the Main Contracts. At the request of Party A, Party B has explained the corresponding articles under this contract and the Main Contracts. Party A has fully known and understood the legal means and the corresponding legal consequences of articles under this contract and the Main Contracts.

III. Party A has the legal qualification to act as the guarantor and Party A's guarantee conducts under this contract conforms to the laws, administrative regulations, rules and Party A's articles of association or documents of internal organization and have been approved by the company's internal authorities and/or the national authorities. All liabilities arising out of execution of this contract by Party A without authorization shall be assumed by Party A, including but not limited to compensation for Party B's loss due to this in full.

IV. Party A has confirmed that it has fully understood the assets, the debts, the operation, the credit and the reputation of the Debtor and all contents of the Main Contracts and confirmed whether or not the Debtor has the subject qualification and authorization of execution of the Main Contracts.

V. Party A has the ownership or the right of disposition of the mortgage property according to law. The mortgage property is not the one of the public facility, being prohibited to circulate and transfer and has no dispute over the ownership.

VI. The mortgage property is not jointly owned with others, or although the mortgage property is jointly owned with others, such guarantee act has been permitted by the co-owner(s) in writing.

VII. The mortgage property is free of any defect or encumbrance which has not been informed of Party B in writing, including but not limited to that the mortgage property is the object under the restricted circulation, seized, detained, supervised, leased, detained or retained or that there are the arrears in purchase, maintenance, construction, national taxes, payment for transfer of land use right and compensation for damages in relation to the mortgage property, or that the guarantee has been created for the third person with the mortgage property.

VIII. All the data and information in relation to the mortgage property provided for Party B by Party A are true, lawful, accurate and complete.

IX. It will neither damage any third person's lawful rights and interest nor violate Party A's legal and agreed obligations that Party A provide such mortgage guarantee.

X. Where Party A or the Debtor fails to observe the laws, regulations or rules in relation to the environment and management of social risks, or may bring the damages or the relevant risks to the environment and the society (including but not limited to the environmental and social issues in relation to the energy dissipation, the pollution, the land, the health, the safety, the placement of immigrants, the ecological protection, the energy conservation and emission reduction and the climate change, etc.) in the process of construction, production and operating activities, Party B shall be entitled to exercise the guarantee rights under this contract in advance and realize other relief measures agreed in this contract or permitted by the law.

[stamp:][illegible:]

Party A (Official Stamp):

(With the stamp of Skechers Taicang Trading and Logistics Co., Ltd)

Legal Representative (Person in charge) or Authorized Signatory (Signature):

August 28, 2018

Party B (Official Stamp):

(With the stamp of Taicang Branch of China Construction Bank Corporation)

Person in charge or Authorized Signatory (Signature):

August 28, 2018

Appendix

List of Mortgage Property

Name of Mortgage Property	Number of Certificate of Ownership or Other Relevant Certificate	Place	Area or Quantity	Value of Mortgage Property (Ten Thousand Yuan)	Amount Created for Other Creditor's Rights (Ten Thousand Yuan)	Note
Real Estate	S. (2017) T. C. S. B. D. C. Q. No. 0032084	In the east of Pingjiang River and in the north of Tonggang Highway, Guokai District	Areas of Land Use Right: 199,910.14 square meters	13495 13513.93 (With the stamp of Taicang Branch of China Construction Bank Corporation)	0	The maximum amount of the creditor's rights created this time is 134,950,000.00 yuan

Guarantee Contract for Maximum Amount of Principal

Contract No. XTC-2018-ZGBZ-0140

Guarantor (Party A): Skechers China Limited

Domicile: 5/F Nanyang Plaza 57 Huang to Road Kwun tong

Post Code: 999077

Legal Representative (Person in charge): Willie Tan

Fax: Telephone: 020-89160222

Creditor (Party B): Taicang Branch of China Construction Bank Corporation

Domicile: No. 44, Xianfu Street, Chengxiang Town, Taicang City

Post Code: 215400

Person in charge: Ji Changlong

Fax: 0512-53521573 Telephone: 0512-53521573

Party B will conclude (and/or has concluded) the contract for loan in RMB, the contract for loan in foreign exchange fund, the agreement for banking acceptance, the contract for issue of letters of credit, the agreement for letter of guarantee and/or other legal documents (In the Term of Execution of Main Contracts, the said contracts, agreements and/or other legal documents are hereinafter referred to as the "Main Contracts" collectively) with the Debtor from July 24, 2018 to July 23, 2023 (hereinafter referred to as the "Term of Execution of Main Contracts) for the reason that Party B has handled the following credit business of Items (1) to (5) for Skechers China Limited (hereinafter referred to as "the Debtor").

- (1) Grant of loan in RMB/ foreign currency;
- (2) Acceptance of trade bills;
- (3) Issue of letters of credit;
- (4) Issue of Letters of Guarantee; and
- (5) Other credit business: financing business for trade and financial management, etc.

Party A would like to provide the guarantee for the maximum amount of the series of debts under the Main Contracts for the Debtor. In accordance with the relevant laws and regulations, Party A and Party B conclude this contract upon consensus through negotiation for joint compliance and execution.

Article 1 Scope of Guarantee

I. The scope of guarantee of this contract is

1. the balance of the principal no more than (currency) RMB (in words) Seven hundred and fifty million yuan only under the Main Contracts; and

2. the interest (including the compound interest and the default interest), the liquidated damages, the compensation, other funds payable to Party B by the debtor (including but not limited to the relevant charges for service and telecommunication and sundry fees paid by Party B in advance and the relevant banking charges under the credit letters that the beneficiary refuses to pay but have been paid by Party B in advance) and all charges incurred by Party B for realization of the creditor's rights and the hypothec (including but not limited to the legal costs, the arbitration fees, the property preservation costs, the travelling expenses, the execution fees, the evaluation fees, the auction fees, the notarization fees, the service fees, the announcement fees and the counsel fees, etc.)

II. Where Party A performs the guarantee liabilities according to this contract, the maximum amount of the principal guaranteed by Party A shall be deducted to the extent of the amount of the principal that has been paid off by Party A.

III. Even if the actual time of formation of the loan, the advances, the interest and the charges under the Main Contracts or any other creditor's rights of Party B exceeds the Term of Execution of Main Contracts, they shall be still in the scope of guarantee under this contract. The deadline for performance of debts under the Main Contracts shall not be limited to the expiry date of the Term of Execution of Main Contracts.

Article 2 Manners of Guarantee

Party A shall undertake the joint liabilities for the guarantee provided under this contract.

Article 3 Term of Guarantee

I. The term of guarantee under this contract shall be calculated subject to each credit business handled for the debtor by Party B respectively, namely 3 years after the period from the day of execution of the Main Contract for the single credit business to the deadline for fulfillment of debts of the debtor under such main contract.

II. Where Party B and the debtor conclude the agreement for extension of fulfillment of debts under the main contract, the term of guarantee shall be 3 years after the deadline for fulfillment of debts agreed in the agreement for extension. The extension needn't be agreed by the guarantor but the guarantor shall assume the joint obligation of guarantee.

III. Where any event stipulated by laws and regulations or agreed in the main contracts occurs so that Party B declares that the debts are expired in advance, the term of guarantee shall be 3 years after the day of acceleration of maturity.

Article 4 Independence of Guarantee Contract

The effectiveness of this contract is independent from that of the main contracts. In case the Main Contracts are invalid, inoperative, void in whole or part or is revoked or dissolved, the effectiveness of this contract shall not be affected. If the Main Contracts are confirmed to be invalid, inoperative, void or partially void, or to be revoked or dissolved, Party A shall undertake the joint obligations for the debts incurred by the debtor due to return of property or compensation for loss.

Article 5 Change of Main Contracts

I. Party A agrees that if Party B and the debtor conclude the Main Contracts or further change the Main Contracts (including but not limited to extension of fulfillment of debts or increase in the amount of the principal of the creditor's right), Party A needn't be informed and that Party A shall undertake the guarantee obligations in the scope of guarantee agreed in this contract.

II. Party A's guarantee obligations shall not be deducted and exempted for any one of the following reasons:

(1) Party B or the debtor carries out the reformation of system, the combination, the merger, the division, the increase or decrease in capital, the joint venture, the joint operation or the change in name, etc.;

(2) Party B authorizes the third party to perform its obligations under the Main Contracts.

III. Where the creditor's rights under the Main Contracts are assigned, the guarantee under this contract shall be assigned together.

IV. Where the transfer behavior of the creditor's rights or debts under the Main Contracts has not come into effect yet or is void, revoked or dissolved, Party A shall undertake the joint guarantee obligations for Party B according to this contract.

Article 6 Guarantee Obligations

I. If the debts under the Main Contracts expire or Party B declares the acceleration of maturity of debts according to the agreements of the Main Contracts or the legal provisions, and the debtor fails to fulfill the debts in full or to observe other agreements under the Main Contracts, Party A shall undertake the guarantee obligations in the scope of guarantee.

II. No matter whether or not Party B has other guarantee for the creditor's rights under the Main Contracts (including but not limited to the guarantee manners of the warranty, the mortgage, the pledge, the letter of guarantee, the standby letter of credit, etc.), or no matter when other guarantee mentioned above is established, or whether or not other guarantee mentioned above is valid, or whether or not Party B claims against others, or whether or not there is the third party agreeing to undertake the entire or partial debts under the Main Contracts, or whether or not other guarantee is provided by the debtor, any one of Party A's guarantee obligations under this contract will not be deducted or exempted. Party B may directly require Party A to perform its guarantee obligations in its scope of guarantee according to the arrangements herein, and Party A shall not propose any objection.

III. Where the creditor's rights under the Main Contracts have not been realized in full after Party A performs its guarantee obligations, Party A promises to claim (including exercise in advance) the right of subrogation or recourse against the debtor or other guarantors in order not to make Party B's interests suffer from any damage, and agrees that the discharge of debts under the Main Contracts precedes over the realization of Party A's right of subrogation or resource.

More precisely, before the creditor's rights of Party B are fully realized,

(1) Party A agrees not to claim the right of subrogation or recourse against the debtor or other guarantors; in case Party A realizes the above-said rights for any reason, Party A shall first use the funds acquired to realize the creditor's rights of Party B unrealized yet.

(2) In case that there is the collateral for the debts under the Main Contracts, Party A agrees not to claim on the incomes arising out of disposal of such collateral due to exercise of the right of subrogation or recourse or for any other reasons, and further agrees that the above-said collateral and the incomes of which shall be first used to realize the creditor's rights of Party B unrealized yet.

(3) Where the debtor or other guarantors provide the counter guarantee for Party A, Party A shall first use the funds acquired from such counter guarantee to realize the creditor's rights of Party B unrealized yet.

IV. Party A has fully realized the risk of interest rate. If Party B adjusts the level of interest rate, the manner of calculation or settlement of interest according to the arrangements under the Main Contracts or the changes in the national policies on interest rate so that the interest, the default interest or the compound interest repayable by the debtor increases, Party A shall undertake the joint obligations of guarantee for the addition.

V. Where the debtor shall be liable to Party B for other due debts other than those under the Main Contracts, Party B shall be entitled to collect the funds in RMB or other currency from the accounts opened in the system of China Construction Bank by the debtor for discharge of any sum of due debts at first. However, Party A's guarantee obligations will not be reduced or exempted due to this.

Article 7 Party A's Other Obligations

I. Party A shall supervise the use status (including the purpose) of the loan borrowed by the debtor, accept the supervision by Party B against Party A's funds, property and operating status and provide the relevant information, documents and materials of the financial statements subject to Party B's requirements and ensure the accuracy, authenticity, completeness and validity. Party A shall not provide the guarantee exceeding its capacity of burden for the third party without Party B's consent in writing.

II. In case of occurrence of contracting, trusteeship (takeover), lease, reformation of stockholding system, decrease in the registered capital, investment, joint operation, combination, merger, reorganization upon acquisition, separation, joint venture, application for stop doing business for internal rectification (or being force to stop doing business for internal rectification), application for dissolution, being cancelled, application for bankruptcy (or being forced to file for bankruptcy), changes in holding stockholders or actual controllers, assignment of significant assets, halt production, discontinuation of business, the large-amount punishment inflicted by the authorities, being cancelled registration, being revoked the business license, significant legal disputes involved, serious difficulties in production and operation, deterioration of financial status, the legal representative or the main director being unable to perform the duties normally, or loss of guarantee capacity or possibility of loss of guarantee capacity for any reason, Party A shall immediately notify Party B in writing and carry out the assumption, transfer or inheritance of guarantee obligations under this contract according to Party B's requirements or provide the new guarantee approved by Party B for execution of the Main Contract.

III. Where Party A's items of industrial and commercial registration such as the name, the legal representative (person in charge), the domicile, the operating scope, the registered capital or the articles of association change, Party B shall be notified in writing within 3 working days after change, and the relevant materials after change shall be attached to such written notice.

Article 8 Other Provisions

I. Collection of Funds Payable

As to all funds payable by Party A under this contract, Party B shall be entitled to collect the funds in RMB or other currency from the accounts opened in the system of China Construction Bank by Party A without notification of Party A in advance. If the procedures in relation to foreign exchange settlement or transaction are required, Party A shall be obligatory to assist Party B in completion of the procedures and the risks of foreign exchange rate shall be assumed by Party A.

II. Use of Party A's Information

Party A agrees Party B to inquire Party A's credit status from the credit database of the People's Bank of China and those approved establishment by credit authorities or from the relevant entities and agencies, and agrees Party B to provide Party A's information to the credit database of the People's Bank of China and those approved establishment by credit authorities. Party A further agrees that Party B may properly use and disclose Party A's information for the business demands.

III. Announcement for Collection

As to Party A's default, Party B shall be entitled to not only notify the relevant authorities or entities of the same but also announce the collection through the news media.

IV. Effectiveness of Evidence Recorded by Party B

Party B's internal accounting records in relation to the principal, the interest, the charges and the records of repayment, the bills and vouchers made or maintained by Party B in the process of withdrawal, repayment and payment of interest handled by the Debtor and the records and vouchers for collection of loan by Party B shall constitute the determinate evidence that may validly prove the relations of the creditor's rights under the Main Contracts unless there is any reliable and determinate evidence to the contrary. Party A shall not propose any objection only for the reason that the said records, bills and vouchers are made or maintained by Party B unilaterally.

V. Reservation of Rights

Party B's rights under this contract shall not impact on or exclude any other rights enjoyed by Party B according to the laws, regulations and other contracts. Any tolerance, grace, discount or delayed exercise of any right under this contract for any default or delayed act shall neither be deemed as waiver of any right or interest under this contract or as agreement or permission of such act of breach of this contract, nor impact on, prevent from and hamper continuous exercise of such right or any other right or make Party B assume any liabilities and obligations for Party A.

Where Party B does not or delays exercise of any rights under the Main Contracts or does not use any remedy under the Main Contracts, Party A's guarantee obligations under this contract shall not be reduced or exempted due to this. However, if Party B reduces or exempts the debts under the Main Contracts, Party A's guarantee obligations under this contract shall be reduced or exempted accordingly.

VI. Debtor's Disbandment or Bankruptcy

After Party A knows that the debtor begins the procedures of disbandment or bankruptcy, Party A shall immediately notify Party B of declaration of the creditor's rights, timely participate in the procedures of disbandment or bankruptcy and exercise the right of recourse in advance. In case Party A knows or should know that the debtor begins the procedures of disbandment or bankruptcy but fails to exercise the right of recourse in advance, the losses shall be assumed by Party A.

Despite of the arrangements of Sub-article 2 under Article V herein, in the procedures of the debtor's bankruptcy, if Party B concludes the settlement agreement with the debtor, or agrees with the plan of reorganization, Party B's rights under this

contract shall not be damaged due to the settlement agreement or the plan of reorganization and Party A's guarantee obligations shall not be reduced or exempted. Party A shall not withstand Party B's claims by virtue of the conditions stipulated in the agreement of settlement or the plan of reorganization. As to the parts of the creditor's rights that are not realized after Party B make the concession in the agreement of settlement or the plan of reorganization, Party B shall be entitled to require Party A to discharge of the same continuously.

VII. Party A's Disbandment or Bankruptcy

In case of Party A's disbandment or bankruptcy, even if Party B's creditor's rights under the Main Contract have not expired yet, Party B shall be entitled to participate in the Party A's procedures of liquidation or bankruptcy and declare the rights.

VIII. Where Party A's mailing address or contact information changes, Party A shall immediately notify Party B in writing and any loss arising out of delayed notification shall be assumed by Party A.

IX. Manner of Settlement of Disputes

Any dispute arising in the process of execution of this contract may be settled through negotiation. In case of failure in negotiation, such dispute shall be settled subject to the 1st manner as follows:

1. To file the lawsuit to Party B's local people's court;

2. To apply for arbitration to the NO ENTRIES HEREIN Arbitration Committee (arbitration place: NO ENTRIES HEREIN) according to the current valid rules of arbitration of such committee when application. The decision of arbitration shall be final and binding on both parties hereto.

During the period of the lawsuit or the arbitration, the articles of this contract not involving in the disputes shall be executed continuously.

X. Effective Conditions for This Contract

This contract shall have come into effect since Party A's legal representative (or person in charge) or authorized signatory affixed the signature or the official stamp hereto and Party B's legal representative (or person in charge) or authorized signatory affixed the signature or the official stamp hereto.

XI. This contract shall be made in three copies.

XII. Other Agreed Provisions

(I)The scope of guarantee agreed herein shall be the total amount of tax price including the value-added tax.

(II) Agreed Article for Service

Party A and Party B make the arrangements for the addresses of service and legal consequences of the various notices, agreements and documents in relation to this contract:

1. Addresses of Service:

(1) Party A confirms its valid address of service as follows:

Specific Address: 28F, Bao Li Ke Luo Wei, Zhongjing Building A, No. 406 Hua Sui Road, Tianhe District, Guangzhou, Guangdong;

(With the stamp of Skechers China Limited)

Post Code: 510000;

Recipient (Designated Receiver): Chen Tian;

Contact Telephone: 020-89160222

(2) Party B confirms its valid address of service as follows:

Specific Address: No. 44, Xianfu Street, Taicang City;

Post Code: 215400;

Recipient (Designated Receiver): [Zhang Dongdong] ;

Contact Telephone: 15995588299

2. Applicable Scope of Addresses of Service

The above-said addresses of service shall be applicable to the service of various notices, agreements and documents in relation to this contract, including but not limited to the service of various documents such as notices and agreements during the performance of the contract, the service of the relevant documents and legal papers in case of any disputes arising out of the contract and the service of relevant document of the first and second trials and retrial, the procedures of execution and other procedures after entry into the arbitration or civil proceedings.

3. Changes in the Address of Service

(1) Where Party A needs to change the address of service, Party A shall notify Party B in writing 10 working days in advance and such written notice shall be sent to Party B's address of service.

(2) Where Party B needs to change the address of service, Party B shall notify Party A on the phone or in writing.

(3) Either party changes its address in the process of arbitration or civil proceedings, such party shall perform the obligation to notify the arbitration institution or the court in writing.

(4) After either party performs the obligation to send the notice of change, the address after change shall be deemed as such party's valid address of service, otherwise, the address confirmed before shall be its valid address of service.

4. Legal Consequences

(1) Where the various documents such as the notices, agreements and legal papers are not received by either party in fact because the address of service provided or confirmed by either party is not accurate, the obligation of notification is not performed according to the above-said manner after change in the address of service or such party or the recipient designated refuse to accept the documents, if the notices are sent by post, the day of return shall be deemed as the day of service; if the notices are sent in person, the day when the delivery person records in the receipt for service shall be deemed as the day of service.

(2) As to the above-said address, the arbitration institution or the court may directly send the documents by post, even if the concerned parties fail to receive the documents sent by the arbitration institution or the court, it shall be deemed as service due to the articles mentioned above.

NO ENTRIES HEREIN

Article 9 Party A's Statement and Warranty

I. Party A clearly knows Party B's business scope and authorization.

II. Party A has read all articles under this contract and the Main Contracts. At the request of Party A, Party B has explained the corresponding articles under this contract and the Main Contracts. Party A has fully known and understood the legal means and the corresponding legal consequences of articles under this contract and the Main Contracts.

III. Party A has the legal qualification to act as the guarantor and Party A's guarantee conducts under this contract conforms to the laws, administrative regulations, rules and Party A's articles of association or documents of internal organization and have been approved by the company's internal authorities and/or the national authorities. All liabilities arising out of execution of this contract by Party A without authorization shall be assumed by Party A, including but not limited to compensation for Party B's loss due to this in full.

IV. Party A has confirmed that it has fully understood the assets, the debts, the operation, the credit and the reputation of the debtor and all contents of the Main Contracts and confirmed whether or not the debtor has the subject qualification and authorization of execution of the Main Contracts.

V. Where Party A or the debtor fails to observe the laws, regulations or rules in relation to the environment and management of social risks, or may bring the damages or the relevant risks to the environment and the society (including but not limited to the environmental and social issues in relation to the energy dissipation, the pollution, the land, the health, the safety, the placement of immigrants, the ecological protection, the energy conservation and emission reduction and the climate change, etc.) in the process of construction, production and operating activities, Party B shall be entitled to exercise the guarantee rights under this contract in advance and realize other relief measures agreed in this contract or permitted by the law.

Party A (Official Stamp):

(With the stamp of Skechers China Limited)

Legal Representative (Person in charge) or Authorized Signatory (Signature):

July 24, 2018

Party B (Official Stamp):

(With the stamp of Taicang Branch of China Construction Bank Corporation)

Person in charge or Authorized Signatory (Signature):

July 24, 2018

(Confidential Portions Omitted) [hw:] 18 -1
Cooperative Agreement on Close Management of Fixed Asset Loan Project

Party A: Skechers Taicang Trading and Logistics Co., Ltd.

Party B: Taicang Branch of China Construction Bank Corporation

The following agreement is hereby entered into by both parties through friendly negotiation for ensuring the performance of No. XTC-2018-1270-0045 Loan Contract for Fixed Assets (hereinafter referred to as Loan Contract) and its warranty contract, perfecting agreement on rights and obligations between both parties, seeing to it that the loan granted by Party B and Party A's equity fund for such project are all used for the construction of new distribution center of Skechers Taicang Trading and Logistics Co., Ltd. project (hereinafter referred to as the development project), guaranteeing the scheduled completion of project, making sure that there are sufficient repayment sources for Party B's loan, and promising the credit fund will be used for specialized purpose and under close operation:

I. Without permission of Party B, Party A may not repeat financing with other banks in the name of such construction project.

II. Party A promises that, prior to the date when it pays off loan for basic construction granted by Party B in full and the project completes, the project's construction fund self-raised by Party A and loan for basic construction granted by Party B shall be only used for the construction on the project agreed hereunder, and that it will not illegally withdraw or embezzle abovementioned funds in any form.

III. Party A opens an account (No. [*]) and its sub-account (No. [*]) at Party B as the close deposit accounts designated for Party A's fund pooling and use in construction project (hereinafter referred to as the designated deposit accounts) and makes a promise on the fund pooling and use within such accounts as follows:

(I) Party A promises that the following funds will enter the abovementioned designated deposit accounts and be placed under management:

1. Self-raised fund: including Party A's equity fund, its shareholders' loan, etc.;
2. Bank loan: basic construction loan granted by Party B;
3. Product sales revenue: including sales revenue, storage sorting fees, etc.

(II) Party A promises that all the utilization of the fund for such project will be supervised by Party B, including:

* Confidential Portions Omitted and Filed Separately with the Commission.

1. Fund utilization related to project construction: including engineering construction fund, equipment fund, materials fund, varied taxes, etc.;

2. Utilization on the principal and interest repaying for Party B's development loan.

(III) During the performance of the agreement, Party A shall accept Party B's supervision over all the income and expenditure of the fund within designated deposit accounts, submit relevant materials required by Party B in a timely manner and guarantee the authenticity and legality of the materials provided by it. Particulars are as follows:

1. Party A shall provide Party B with monthly financial statement, quarterly financial statement and annual financial statement on schedule and assist Party B in verifying its daily financial statuses, including providing original vouchers, detailed lists, general ledger, etc. for accounting treatment.

2. Since the date when Party B grants the loan, Party B is entitled to request Party A to rectify relevant issues and refuse handling relevant fund payments for Party A provided that there is disordered management in construction, the price for the materials to be purchased is too high or the construction progress payment is out-of-step.

3. Party A shall send the originals of contracting contract and contract for supplying materials and devices signed between Party A and construction contractor, materials supplier as well as other payees to Party B for inspection and meanwhile, providing duplicates to Party B for preservation. The abovementioned contracts and materials shall serve as the major basis of Party A's external payment.

4. In accordance with the abovementioned agreements reached by Party A and Party B, Party B is entitled to refuse handling other external payment services beyond the scope agreed hereunder for the designated deposit accounts hereunder.

5. Party A's sales return fund can be used for the Company's normal expenditure provided that there is no overdue principal and interest of the loan at each installment. Before paying off the principal and interest of loan in full for Party B, Party A may not consent to the requirements of shareholder(s) for dividend sharing or share withdrawal, or agree on its shareholder(s)' requirements for returning shareholders' loan or other requirements for investment withdrawal in any form.

IV. Promises of Party B

(I) Party B promises that: though Party A fails to fully pay off all principals and interests of basic construction loan for Party B, in case that the project is incomplete and Party A has preserved enough construction fund for the project in designated deposit accounts (specific sum shall be subject to the figure approved by both parties), the surplus fund within the accounts can be removed out of close management and used by Party A for other purposes; once Party A fully pays off all principals and interests of basic construction loan for Party B and the construction has been completed and delivered for use, all fund within such accounts shall be removed out of close management and used by Party A at its will;

(II) Party B promises to grant the loan in full on schedule as agreed in Loan Contract, unless the granting is postponed for Party A's sake;

(III) During the performance of the Loan Contract, Party B promises to provide fund settlement service as stipulated in relevant laws and regulations, and if required by Part A, propose reasonable suggestions on fund management for Party A's project;

(IV) Party B promises that it will keep confidential on the commercial secrets related to its financial information, project materials and other commercial secrets provided by Party A, unless otherwise stipulated in laws, regulations and rules.

V. Where Party A violates the provisions listed hereunder, Party B is entitled to adopt one or more measures as follows:

(I) Request Party A to rectify its breaching acts within a time limit;

(II) Stop granting the remaining loan;

(III) Collect principal and interest of the loan in advance;

(IV) Require the loan guarantor to fulfill its guarantee liabilities, disposing of the guaranteed property according to laws;

(V) Where Party A seriously breaches the agreement by illegally withdrawing the fund and such act constitutes fraud to Party B, Party B may report to the public security authorities according to laws, investigating Party A's criminal liabilities.

VI. Where Party B violates the provisions listed hereunder, Party A is entitled to adopt one or more measures as follows:

(I) Stop using the unused loan;

(II) Return the principal and interest of the loan in advance without undertaking corresponding losses caused to Party B;

VII. Other agreed items:

The Agreement shall take effective after the legal representative of Party A affixes its signature and official stamp and the person in charge or authorized agent of Party B affixes its signature and official stamp.

Unsettled matters hereunder shall be dealt with by Party A and Party B through negotiations.

VIII. This Agreement shall be in duplicate with each copy being distributed to Party A and Party B respectively.

[illegible stamps]

Party A: (official stamp)

Legal representative (signature)

[seal:] Chen Yude

[hw:] September 29, 2018

(With the stamp of Skechers Taicang Trading and Logistics Co., Ltd.)

[illegible stamp]

Party B: (official stamp)

Person in charge (authorized agent) (signature)

[signature]

[hw:] September 29, 2018

(With the stamp of Taicang Branch of China Construction Bank Corporation)

CERTIFICATION

I, Robert Greenberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended September 30, 2018 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: November 2, 2018

/s/ Robert Greenberg
Robert Greenberg
Chief Executive Officer

CERTIFICATION

I, John Vandemore, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended September 30, 2018 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: November 2, 2018

/s/ John Vandemore
John Vandemore
Chief Financial Officer

**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 quarterly report of Skechers U.S.A., Inc. (the "Company") on Form 10-Q for the three months ended September 30, 2018 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)
November 2, 2018

/s/ John Vandemore

John Vandemore
Chief Financial Officer
(Principal Financial and Accounting Officer)
November 2, 2018

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.