SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999
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	95-4376145
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

228 MANHATTAN BEACH BLVD. MANHATTAN BEACH, CALIFORNIA	90266
(Address of Principal Executive Offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (310) 318-3100
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<TABLE>
<CAPTION>

Title of each class	Name of each exchange on which registered
<S>	<C>
Class A Common Stock $0.001 par value	New York Stock Exchange

</TABLE>

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 [X] No [ ]

THE NUMBER OF SHARES OF CLASS A COMMON STOCK OUTSTANDING AS OF NOVEMBER 10, 1999: 7,000,000

THE NUMBER OF SHARES OF CLASS B COMMON STOCK OUTSTANDING AS OF NOVEMBER 10, 1999: 27,814,155

SKECHERS U.S.A., INC.

1999 FORM 10-Q QUARTERLY REPORT

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<TABLE>
<CAPTION>

	PAGE #
<S>	<C>
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - SKECHERS U.S.A., INC.	
Condensed Consolidated Balance Sheets -- December 31, 1998 and September 30, 1999	1

Condensed Consolidated Statements of Earnings -- Three-month periods ended September 30, 1998 and 1999 2

Condensed Consolidated Statements of Earnings -- Nine-months periods ended September 30, 1998 and 1999 3

Condensed Consolidated Statement of Stockholders' Equity -- Nine-month period ended September 30, 1999 4

Condensed Consolidated Statement of Cash Flows -- Nine-months periods ended September 30, 1998 and 1999 5

Notes to Condensed Consolidated Financial Statements 6

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 10

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 19

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS 19
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS 19
ITEM 3. DEFAULTS UPON SENIOR SECURITIES 19
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS 19
ITEM 5. OTHER INFORMATION 19
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K 19
SIGNATURES 19
</TABLE>

SKECHERS U.S.A., INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

ASSETS

<TABLE>
<CAPTION>

<S>	December 31 1998 <C>	September 30 1999 (Unaudited) <C>
Current assets:		
Cash	$ 10,942	4,528
Trade accounts receivable, less allowances for bad debts and returns of $3,413 in 1998 and $2,919 in 1999	46,771	71,731
Due from officers and employees	116	25
Other receivables	2,329	2,035
Total receivables	49,216	73,791
Inventories	65,390	56,174
Deferred tax assets	--	2,195
Prepaid expenses and other current assets	2,616	1,883
Total current assets	128,164	138,571
Property and equipment, at cost, less accumulated depreciation and amortization	15,196	18,363
Intangible assets, at cost, less applicable amortization	1,003	716
Other assets, at cost	1,921	3,664
	$146,284	161,314

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Short-term borrowings	$ 54,323	31,939
Current installments of long-term borrowings	816	880
Current installments of notes payable to stockholder	2,244	--
Accounts payable	38,145	35,076
Accrued expenses	8,897	7,482
Distributions payable	633	--
	-----------	-----------
Total current liabilities	105,058	75,377
	-----------	-----------
Long-term borrowings, excluding current installments	3,550	2,988
Notes payable to stockholder, excluding current installments	10,000	--
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, $.001 par value; 10,000 shares authorized; none issued and outstanding	--	--
Class A Common Stock, $.001 par value; 100,000 shares authorized; 7,000 issued and outstanding at September 30, 1999	--	28
Class B Common Stock, $.001 par value; 60,000 shares authorized; 27,814 issued and outstanding	2	7
Additional paid-in capital	--	69,687
Retained earnings	27,674	13,227
	-----------	-----------
Total stockholders' equity	27,676	82,949
	-----------	-----------
	$146,284	$161,314
	===========	===========

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

Three-month periods ended September 30, 1998 and 1999
(unaudited)
(In thousands, except per share data)

<TABLE>
<CAPTION>

<S>	1998 <C>	1999 <C>
Net sales	$143,045	124,177
Cost of sales	80,869	71,340
	-----------	-----------
Gross profit	62,176	52,837
Royalty income, net	106	--
	-----------	-----------
	62,282	52,837
	-----------	-----------
Operating expenses:		
Selling	16,443	15,814
General and administrative	21,379	21,534
	-----------	-----------
	37,822	37,348
	-----------	-----------
Earnings from operations	24,460	15,489
	-----------	-----------
Other income (expense):		

Interest	(1,883)	(1,465)
Other, net	11	219
	(1,872)	(1,246)
Earnings before income taxes	22,588	14,243
Income taxes	704	5,698
Net earnings	$ 21,884	8,545
Pro forma operations data:		
Earnings before income taxes	$ 22,588	14,243
Income taxes	9,035	5,698
Net earnings	$ 13,553	8,545
Net earnings per share:		
Basic	$ 0.49	0.25
Diluted	$ 0.44	0.24
Weighted average shares:		
Basic	27,814	34,814
Diluted	30,692	35,594

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

Nine-month periods ended September 30, 1998 and 1999
(unaudited)

(In thousands, except per share data)

<TABLE>
<CAPTION>

<S>	1998 <C>	1999 <C>
Net sales	$290,602	324,495
Cost of sales	169,946	192,228
Gross profit	120,656	132,267
Royalty income, net	325	207
	120,981	132,474
Operating expenses:		
Selling	32,767	42,972
General and administrative	50,415	56,726
	83,182	99,698

Earnings from operations	37,799	32,776
Other income (expense):		
Interest	(6,223)	(5,334)
Other, net	29	722
	(6,194)	(4,612)
Earnings before income taxes	31,605	28,164
Income taxes	888	6,897
Net earnings	$ 30,717	21,267
Pro forma operations data:		
Earnings before income taxes	$ 31,605	28,164
Income taxes	12,642	11,266
Net earnings	$ 18,963	16,898
Net earnings per share:		
Basic	$ 0.68	0.55
Diluted	$ 0.62	0.52
Weighted average shares:		
Basic	27,814	30,737
Diluted	30,634	32,430

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Nine-month period ended September 30, 1999
(Unaudited)
(In thousands)

<TABLE>
<CAPTION>

	Common Stock		Additional		Total
	Shares	Amount	Paid in Capital	Retained Earnings	Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1998	27,814	$ 2	$ --	$ 27,674	$ 27,676
Net earnings	--	--	--	21,267	21,267
Proceeds from initial public offering	7,000	33	69,687	--	69,720
Distributions:					
Cash	--	--	--	(35,364)	(35,364)
Cross Colours trademark	--	--	--	(350)	(350)
Balance at September 30, 1999	34,814	$35	$69,687	$ 13,227	$ 82,949

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine-month periods ended September 30, 1998 and 1999
(unaudited)

(In thousands, except per share data)

<TABLE>
<CAPTION>

<S>	1998 <C>	1999 <C>
Cash flows from operating activities:		
Net earnings	$ 30,717	21,267
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization of property and equipment	1,932	3,032
Amortization of intangible assets	98	55
Provision for bad debts and returns	654	(494)
Gain on distribution of intangibles	--	(118)
Loss on disposal of equipment	190	400
Increase in assets:		
Receivables	(36,438)	(24,081)
Inventories	(11,210)	9,216
Deferred tax assets	--	(2,195)
Prepaid expenses and other current assets	(1,217)	733
Other assets	209	(1,743)
Increase (decrease) in liabilities:		
Accounts payable	11,752	(3,069)
Accrued expenses	(2,087)	(2,048)
Net cash provided by (used in) operating activities	(5,400)	955
Cash flows used in investing activities - capital expenditures	(7,491)	(6,599)
Cash flows from financing activities:		
Net proceeds from initial public offering of common stock	--	69,720
Net proceeds (payments) related to short-term borrowings	15,373	(22,320)
Payments related to long-term debt	(200)	(562)
Payments on notes payable to stockholder	--	(12,244)
Distributions paid to stockholders	(2,157)	(35,364)
Net cash provided by (used in) financing activities	13,016	(770)
Net decrease in cash	125	(6,414)
Cash at beginning of period	1,462	10,942
Cash at end of period	$ 1,587	4,528
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 6,208	5,500
Income taxes	888	7,343

</TABLE>

During the nine-month period ended September 30, 1999, the Company declared a non-cash distribution of intangibles of $350.

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1999
(UNAUDITED)

(1) GENERAL

The unaudited operating results have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation for the periods. The accompanying interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Registration Statement on Form S-1 (File No. 333-60065). The results of operations for interim periods are not necessarily indicative of results to be achieved for full fiscal years.

(2) PRO FORMA INFORMATION

Income Taxes

Effective June 7, 1999, the Company terminated its S Corporation election, becoming a C Corporation subject to Federal and state income taxes. The tax provisions include historical income taxes and pro forma income tax adjustments which represent taxes which would have been reported had the Company been subject to Federal and state income taxes as a C Corporation. The Company's conversion to a C Corporation on June 7, 1999 resulted in a one-time noncash credit to earnings for establishing the deferred tax asset on June 7, 1999 of $1.8 million. This amount is reflected as deferred taxes and reduces the provision for historical income taxes in the accompanying condensed consolidated statement of earnings.

The pro forma unaudited income tax adjustments presented represent taxes which would have been reported had the Company been subject to Federal and state income taxes as a C Corporation, assuming a 40.0% rate. The historical and pro forma provisions for income tax expense were as follows (in thousands):

<TABLE>
<CAPTION>

	Three-Months Ended September 30		Nine-months Ended September 30	
	1998	1999	1998	1999
<S>	<C>	<C>	<C>	<C>
Historical income taxes	$ 704	5,698	888	6,897
Pro forma adjustments:				
Federal	6,665	--	9,403	3,495
State	1,666	--	2,351	874
Total pro forma adjustments	8,331	--	11,754	4,369
Total pro forma income taxes	$9,035	5,698	12,642	11,266

</TABLE>

SEPTEMBER 30, 1999
(UNAUDITED)

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

<TABLE>
<CAPTION>

	Three-Months Ended September 30		Nine-months Ended September 30	
	1998	1999	1998	1999
<S>	<C>	<C>	<C>	<C>
Expected income tax expense	$7,906	4,985	11,062	9,857
State income tax, net of Federal benefit	1,129	713	1,580	1,409
Total provision for pro forma income taxes	$9,035	5,698	12,642	11,266

</TABLE>

Earnings Per Share

The Company reports pro-forma earnings per share under Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earnings Per Share". Under SFAS No. 128, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share reflects the potential dilution that could occur if securities to issue common stock were exercised or converted into common stock. The weighted average diluted shares outstanding gives effect to the sale by the Company of those shares of common stock necessary to fund the payment of the excess of (i) the sum of stockholder distributions paid or declared from January 1, 1998 to June 7, 1999, the S Corporation termination date, in excess of (ii) the S Corporation earnings from January 1, 1998 to December 31, 1998 for 1998 and January 1, 1998 to June 7, 1999 for 1999 based on an initial public offering price of $11 per share, net of underwriting discounts.

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

<TABLE>
<CAPTION>

	Three-Months Ended September 30		Nine-months Ended September 30	
	1998	1999	1998	1999
<S>	<C>	<C>	<C>	<C>
Weighted average shares used in basic computation	27,814	34,814	27,814	30,737
Shares to fund stockholders distributions described above	1,839	--	1,839	713
Dilutive stock options	1,039	780	981	980
Weighted average shares used in diluted computation	30,692	35,594	30,634	32,430

</TABLE>

The Company granted options to purchase 1,209,636 shares of Class A common stock on June 9, 1999 at $11 per share. These options were excluded from the computation of diluted weighted average shares as they were anti-dilutive.

(3) COMPREHENSIVE INCOME

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

(4) COMPUTER SOFTWARE COSTS

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

(5) START-UP COSTS

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

(6) BANK BORROWINGS

The Company has available a secured line of credit, as amended in December 1998, permitting borrowings up to $120.0 million based upon eligible accounts receivable and inventories. The borrowings bear interest at the rate of prime (8.25% at September 30, 1999) plus 0.25% or at LIBOR (6.08% at September 30, 1999) plus 2.75% and the line of credit expires on December 31, 2002. The agreement provides for the issuance of letters of credit up to a maximum of $18.0 million, which decreases the amount available for borrowings under the agreement. The outstanding letters of credit at September 30, 1999 are $3.2 million. The Company paid a 1.0% per annum fee on the maximum letter of credit amount plus 0.50% of the difference between the revolving loan commitment less the maximum letter of credit amount. At September 30, 1999, the Company had available credit aggregating approximately $47.7 million. The agreement contains certain restrictive covenants, including tangible net worth and net working capital, as defined, with which the Company was in compliance at September 30, 1999.

At September 30, 1999, the Company had $2.5 million outstanding under a secured note payable with a financial institution, bearing interest at the rate of prime plus 1.0%, payable in monthly installments of $25,000 and due November 30, 2002.

(7) NOTES PAYABLE TO STOCKHOLDER

Stockholder loans aggregating $11.8 million were repaid with proceeds from the Company's initial public offering during June 1999. The Company recorded interest expense of approximately $474,000 and $433,000 related to these notes during the nine-month periods ended September 30, 1998 and 1999, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 1999
(UNAUDITED)

(8) STOCKHOLDERS' EQUITY

Effective as of May 28, 1999, the Company was reincorporated in Delaware, whereby the existing California corporation was merged into a newly formed Delaware corporation and pursuant to which each outstanding share of common stock of the existing California corporation was exchanged for a share of $.001 par value Class B common stock of the new Delaware corporation. In addition, pursuant to the reincorporation merger, an approximate 13,907 for 1 common stock split was authorized. The amendment and stock split has been reflected retroactively in the accompanying condensed consolidated financial statements.

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

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

On June 9, 1999, the Company issued 7.0 million shares of Class A common stock in an initial public offering and received net proceeds of $69.7 million. The application of net proceeds were applied to (i) repayment of stockholder loans of $11.8 million, (ii) dividend distributions of $31.8 million, and (iii) partial repayment of the Company's revolving line of credit of $26.1 million. On June 9, 1999, the Company also granted 1,209,636 options to acquire Class A common stock at an exercise price of $11 per share which vest ratably in 20% increments commencing one year from the grant date.

(9) LITIGATION

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

ITEM 2

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

The following discussion should be read in conjunction with the Company's Condensed Consolidated Financial Statements and Notes thereto appearing elsewhere herein. This section contains certain forward-looking statements that involve risks and uncertainties including, but not limited to, information with regard to anticipated marketing expenditures, the successful implementation of the Company's strategies, future growth and growth rates, and future increases in net sales, expenses, capital expenditures and net earnings. Without limiting the foregoing, the words "endeavors," "believes," "anticipates," "plans," "expects," "may," "could," "will," "intends," "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties, and the Company's actual results may differ materially from the results discussed in the forward-looking statements as a result of certain factors including, among others, changing consumer demand and fashion trends, popularity of particular styles and demand for such, the ability of management to manage the Company's growth and sustain its rate of growth, the loss of significant manufacturers or customers, the size and timing of purchases, seasonal and quarterly fluctuations in earnings, the ability to protect intellectual property rights, increased costs of freight and transportation, ability to retain qualified personnel, increase in marketing expenditures, changes to estimates of capital expenditures or additional capital requirements, increased costs or disruptions due to year 2000 issues, and general risks associated with doing business outside the United

States, such as import duties, tariffs and political and economic instability. Other sections of this report may include additional factors which could adversely impact the Company's business and financial condition.

OVERVIEW

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

On June 9, 1999, the Company issued 7.0 million shares of Class A common stock in an initial public offering (the "Offering") and received net proceeds of approximately $69.7 million (after deducting underwriting discounts and commissions and Offering expenses). The application of net proceeds were applied to (i) repayment of a $10 million subordinated note and a $1.8 million unsubordinated note, each to the Greenberg Family Trust, (ii) dividend distributions of $31.8 million, and (iii) partial repayment of the Company's revolving line of credit of $26.1 million.

In May 1992, the Company elected to be treated for Federal and state income tax purposes as an S Corporation under Subchapter S of the Internal Revenue Code of 1986, as amended, and comparable state laws. As a result, for the period from inception through June 7, 1999, earnings of the Company were included in the taxable income of the Company's stockholders for Federal and state income tax purposes, and the Company was not subject to income tax on such earnings, other than franchise and net worth taxes. The Company terminated its S Corporation status on June 7, 1999 in connection with the Offering. Accordingly, the Company is treated for Federal and state income tax purposes as a corporation under Subchapter C of the Code and, as a result, is subject to state and Federal income taxes. By reason of the Company's treatment as an S Corporation for Federal and state income tax purposes, the Company, for the period from inception through June 7, 1999 provided to its stockholders funds for the payment of income taxes on the earnings of the Company. In April 1999, the Company declared and paid a distribution consisting of the first installment of Federal income taxes payable on S Corporation earnings for 1998 in the amount of $3.5 million. Also, the Company used a portion of its proceeds of the Offering to make a

distribution consisting of the final installment of Federal income taxes payable on S Corporation earnings for 1998 (the "Final 1998 Distribution"). The amount of the Final 1998 Distribution was $7.6 million. Upon the termination of the Company's S Corporation status, the Company declared (i) a distribution consisting of income taxes payable on S Corporation earnings from January 1, 1999 through June 7, 1999 (the "Final Tax Distribution"), and (ii) a distribution in an amount designed to constitute the Company's remaining and undistributed accumulated S Corporation earnings through June 7, 1999 (the "Final S Corporation Distribution"). The amount of the Final Tax Distribution was $2.8 million and the amount of the Final S Corporation Distribution was $21.4 million and such amounts were funded with a portion of the net proceeds of the Offering. Purchasers of shares of Class A Common Stock in the Offering did not receive any portion of the Final 1998 Distribution, the Final Tax Distribution or the Final S Corporation Distribution. After the date of such termination, the Company was no longer treated as an S Corporation and, accordingly, it became subject to Federal and state income taxes. All pro forma income taxes reflect adjustments for Federal and state income taxes as if the Company had been taxed as a C Corporation rather than an S Corporation.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated, selected information from the Company's results of operations as a percentage of net sales. Pro forma

reflects adjustments for Federal and state income taxes as if the Company had been taxed as a C Corporation at an assumed 40% rate rather than an S Corporation.

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1999	1998	1999
<S>	<C>	<C>	<C>	<C>
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	56.5	57.5	58.5	59.2
Gross profit	43.5	42.5	41.5	40.8
Royalty income, net	0.0	0.0	0.1	0.0
	43.5	42.5	41.6	40.8
Operating expenses:				
Selling	11.5	12.7	11.3	13.2
General and administrative	14.9	17.3	17.3	17.5
	26.4	30.0	28.6	30.7
Earnings from operations	17.1	12.5	13.0	10.1
Interest expense, net	(1.3)	(1.2)	(2.1)	(1.6)
Other, net	0.0	0.2	0.0	0.2
Earnings before pro forma Income taxes	15.8	11.5	10.9	8.7
Pro forma income taxes	6.3	4.6	4.4	3.5
Pro forma net earnings	9.5%	6.9%	6.5%	5.2%

</TABLE>

THREE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1998

Net Sales

Net sales decreased $18.8 million, or 13.2%, to $124.2 million for the three months ended September 30, 1999 as compared to $143.0 million for the three months ended September 30, 1998. This decrease was due to a shift in retail buying patterns relative to the prior year from the third quarter into the fourth quarter of

1999 and lower at once orders resulting partially from a slowdown in overall back-to-school sales at certain of the Company's major retail customers. Provisions for returns and allowances were $4.5 million for the three months ended September 30, 1999 as compared to $3.8 million for the three months ended September 30, 1998. Net sales through the Company's retail stores increased $3.1 million, or 35.7%, to $12.0 million for the three months ended September 30, 1999 as compared to $8.9 million for the three months ended September 30, 1998. This increase is primarily due to new store openings. The Company operated 39 retail stores during the third quarter of 1999 versus 30 retail stores during the third quarter of 1998. The Company closed its Times Square store in October 1999 due to redevelopment of the Times Square area. Net sales generated from international operations decreased $298,000, or 2.6%, to $11.0 million for the three months ended September 30, 1999, as compared to $11.3 million for the three months ended September 30, 1998.

Gross Profit

The Company's gross profit decreased $9.4 million, or 15.0%, to $52.8 million

for the three months ended September 30, 1999, compared to $62.2 million for the three months ended September 30, 1998. The decrease was attributable to lower sales. Gross profit as a percentage of net sales ("Gross Margin") decreased to 42.5% for the three months ended September 30, 1999 from 43.5% for the same period in 1998. The decrease in Gross Margin was primarily due to higher ocean freight costs resulting from rate increases by third party shipping companies on imported products beginning in the second quarter of 1999. The effect of the rate increases were partially offset by the increase in the Company's retail sales, including direct mail, since such retail Gross Margins are higher than wholesale Gross Margins.

Selling Expenses

Selling expenses include sales salaries, commissions and incentives, advertising, promotions and trade shows. Selling expenses decreased $629,000, or 3.8%, to $15.8 million (12.7% of net sales) for the three months ended September 30, 1999 from $16.4 million (11.5% of net sales) for the three months ended September 30, 1998. The decrease in total dollars was primarily due to decreased marketing (advertising and tradeshow) expenditures, and sales compensation due to the decrease in sales. Advertising expenses as a percentage of net sales for the three months ended September 30, 1999 and 1998 was 10.9% and 9.9%, respectively. The Company endeavors to spend approximately 8.0% to 10.0% of annual net sales in the marketing of Skechers footwear through advertising, promotions, public relations, trade shows and other marketing efforts. Marketing expense as a percentage of net sales may vary from quarter to quarter. The increase as a percentage of sales was due primarily to lower sales.

General and Administrative Expenses

General and administrative expenses increased $155,000, or 0.7%, to $21.5 million (17.3% of net sales) for the three months ended September 30, 1999 from $21.4 million (14.9% of net sales) for the three months ended September 30, 1998. The increase in total dollars is primarily due to (i) the hiring of additional personnel, (ii) increased product design and development costs and (iii) the net addition of nine retail stores which were not open in the third quarter of 1998. The increase was partially offset by lower incentive compensation. During the three months ended September 30, 1999, the Company recognized $550,000 of officer incentive compensation pursuant to employment agreements. During the three months ended September 30, 1998, the Company recognized $1.6 million of incentive compensation relating to the Company's 1996 Incentive Compensation Plan (the "1996 Incentive Compensation Plan") which expired December 31, 1998. The Company has not introduced a non-officer incentive compensation plan for 1999.

The increase in general and administrative expense as a percentage of net sales was primarily due to lower sales.

Interest Expense

Interest expense decreased $418,000, or 22.2%, to $1.5 million for the three months ended September 30, 1999 as compared to $1.9 million for the three months ended September 30, 1998 as a result of the application of net proceeds from the Offering which were partially used to reduce debt.

Other Income, Net

Other income, net during the three month periods ended September 30, 1999 and 1998 related to miscellaneous income of $219,000 and $11,000, respectively.

Pro Forma Income Taxes

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

NINE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1998

Net Sales

Net sales increased $33.9 million, or 11.7%, to $324.5 million for the nine months ended September 30, 1999 as compared to $290.6 million for the nine months ended September 30, 1998. This increase was due to increased sales of branded footwear primarily as a result of (i) greater brand awareness driven in part by a significant expansion of the Company's national marketing efforts, (ii) a broader breadth of men's, women's and children's product offerings, (iii) the development of the Company's domestic sales force and international distributor network, (iv) the increased volume of the Company's existing account base with multiple stores and increased sales to such accounts, resulting in higher sales per account, (v) the operation of 40 Company stores (which includes one store that closed in January 1999) during the nine months ended September 30, 1999 versus the operation of 30 Company stores during the nine months ended September 30, 1998, and (vi) the launch of the Company's direct mail business in August 1998. The increase was partially offset by lower third quarter 1999 sales as previously mentioned. Provisions for returns and allowances were $11.4 million for the nine months ended September 30, 1999 as compared to $9.4 million for the nine months ended September 30, 1998. Net sales through the Company's retail stores increased $11.8 million, or 65.1%, to $30.0 million for the nine months ended September 30, 1999 as compared to $18.2 million for the nine months ended September 30, 1998. This increase is primarily due to new store openings. Net sales generated from international operations increased $5.1 million, or 19.9%, to $30.9 million for the nine months ended September 30, 1999, as compared to $25.8 million for the nine months ended September 30, 1998.

Gross Profit

The Company's gross profit increased $11.6 million, or 9.6%, to $132.3 million for the nine months ended September 30, 1999, compared to $120.7 million for the nine months ended September 30, 1998. The increase was attributable to higher sales. Gross Margin decreased to 40.8% for the nine months ended September 30, 1999 from 41.5% for the same period in 1998. The decrease in Gross Margin was primarily due to higher ocean freight costs resulting from rate increases by third party shipping companies on imported product beginning in the second quarter of 1999. The effect of the rate increases were partially

offset by the increase in the Company's retail sales, including direct mail, since such retail Gross Margins are higher than wholesale Gross Margins.

Selling Expenses

Selling expenses increased $10.2 million, or 31.1%, to $43.0 million (13.2% of net sales) for the nine months ended September 30, 1999 from $32.8 million (11.3% of net sales) for the nine months ended September 30, 1998. The increase in total dollars was primarily due to increased marketing (advertising and tradeshow) expenditures, sales compensation due to the increase in sales, and the hiring of additional sales personnel. Marketing expenses as a percentage of net sales for the nine months ended September 30, 1999 and 1998 was 11.0% and 9.3%, respectively.

General and Administrative Expenses

General and administrative expenses increased $6.3 million, or 12.5%, to $56.7 million (17.5% of net sales) for the nine months ended September 30, 1999 from $50.4 million (17.3% of net sales) for the nine months ended September 30, 1998. The increase in total dollars is primarily due to (i) the hiring of additional personnel, (ii) an increase in costs associated with the Company's distribution facilities to support the Company's growth, (iii) increased product design and development costs and (iv) the addition of 9 retail stores, net which were not open in the nine months ended September 30, 1998. The increase was partially offset by lower incentive compensation. During the nine months ended September 30, 1999, the Company recognized $550,000 of officer incentive compensation pursuant to employment agreements. During the nine months ended September 30, 1998, the Company recognized $3.2 million of incentive compensation relating to the Company's 1996 Incentive Compensation Plan which expired December 31, 1998. The Company has not introduced a non-officer incentive compensation plan for 1999. The increase in general and administrative expense as a percentage of net sales was primarily due to lower sales.

Interest Expense

Interest expense decreased $889,000, or 14.3%, to $5.3 million for the nine months ended September 30, 1999 as compared to $6.2 million for the nine months ended September 30, 1998 as a result of the application of net proceeds from the Offering which were partially used to reduce debt.

Other Income, Net

Other income, net during the nine month periods ended September 30, 1999 and 1998 related to miscellaneous income of $722,000 and $29,000, respectively.

Pro Forma Income Taxes

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

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically relied upon internally generated funds, trade credit, borrowings under credit facilities and loans from stockholders to finance its operations and expansion. The Company's need for funds arises primarily from its working capital requirements, including the need to finance its inventory and receivables. The Company's working capital was $63.2 million at September 30, 1999 and $23.1 million at December 31, 1998, respectively. The increase in working capital at September 30, 1999 as compared to December 31, 1998 was primarily due to the Offering and application of net proceeds therefrom as well as net earnings during the nine months ended September 30, 1999.

As part of the Company's working capital management, the Company performs substantially all customer credit functions internally, including extension of credit and collections. The Company's bad debt write-offs were less than 1.0% of net sales for nine months ended September 30, 1998 and 1999. The Company

carries bad debt insurance to cover approximately the first 90.0% of bad debts on substantially all of the Company's major retail accounts.

Net cash provided by (used in) operating activities totaled $955,000 and $(5.4) million for the nine months ended September 30, 1999 and 1998, respectively. The increase in cash provided by operating activities was due primarily to a decrease in inventory balances. The decrease in inventory from December 31, 1998 to September 30, 1999 of $9.2 million was primarily due to maintaining strict inventory controls during the nine month period ending September 30, 1999.

Net cash used in investing activities totaled $6.6 million and $7.5 million for the nine months ended September 30, 1999 and 1998, respectively, and related to capital expenditures. Capital expenditures in 1999 primarily included the construction of additional Company retail stores and trade show booths, as well as additional hardware and software for the Company's computer needs. Investing activities in 1998 was primarily due to increased capital expenditures in connection with the establishment of the Company's distribution facilities in Ontario, California, the construction of additional Company retail stores, and additional hardware and software for the Company's computer needs.

The Company estimates that its capital expenditures for the year ending December 31, 1999 will be approximately $10.0 million, of which approximately $5.5 million will be used for the installation of a new material handling system for the Company's most recently opened distribution facility. Total expenditures for the new material handling system are expected to be approximately $10.0 million, the balance of which will be spent in 2000. The Company also anticipates spending $400,000 for expenditures on equipment for the Company's distribution facilities, and $4.1 million capital expenditures related to general corporate purposes in 1999, including leasehold improvements and purchases of furniture and equipment in connection with the opening of additional retail stores, additions and advancements to the Company's management information systems, costs associated with trade show booths and leasehold improvements to the Company's facilities.

Net cash provided by (used in) financing activities totaled $(770,000) and $13.0 million for the nine months ended September 30, 1999 and 1998, respectively. The

increase in cash used in financing activities was primarily due to payments on debt and dividend distributions which were partially financed by the Offering.

The Company's credit facility provides for borrowings under a revolving line of credit of up to $120.0 million and a term loan, with actual borrowings limited to available collateral and certain limitations on total indebtedness (approximately $47.7 million of availability as of September 30, 1999) with Heller Financial, Inc., as agent for the lenders. As of September 30, 1999, there was approximately $31.9 million outstanding under the revolving line of credit. The revolving line of credit bears interest at the Company's option at either the prime rate (8.25% at September 30, 1999) plus 25 basis points or at Libor (6.08% at September 30, 1999) plus 2.75%. The revolving line of credit expires on December 31, 2002. Interest on the revolving line of credit is payable monthly. The revolving line of credit provides a sub-limit for letters of credit of up to $18.0 million to finance the Company's foreign purchases of merchandise inventory. As of September 30, 1999, the Company had approximately $3.2 million of letters of credit under the revolving line of credit. The term loan component of the credit facility, which has a principal balance of approximately $2.5 million as of September 30, 1999, bears interest at the prime rate plus 100 basis points and is due in monthly installments with a final balloon payment December 2002. The proceeds from this note were used to purchase equipment for the Company's distribution centers in Ontario, California and the note is secured by such equipment. The credit facility contains certain financial covenants that require the Company to maintain minimum tangible net worth of at least $20.0 million, working capital of at least $14.0 million and specified leverage ratios and limit the ability of the Company to pay dividends if it is in default of any provisions of the credit facility. The Company was in compliance with these covenants as of September 30, 1999. The credit facility is collateralized by the Company's real and personal property, including, among other things, accounts receivable, inventory, general intangibles and equipment and is guaranteed by the Company's wholly-owned subsidiaries.

By reason of the Company's treatment as an S Corporation for Federal and state income tax purposes, the Company from inception to June 7, 1999, the S Corporation termination date, provided to its stockholders funds for the payment of income taxes on the earnings of the Company. In April 1999, the Company declared the April Tax Distribution of $3.5 million, and connection with the Offering declared the Final 1998 Distribution, of $7.6 million, the Final Tax Distribution, of $2.8 million, and the Final S Corporation Distribution, of $21.4 million. The Company's C Corporation earnings will be retained for the foreseeable future in the operations of the business.

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

QUARTERLY RESULTS AND SEASONALITY

Sales of footwear products are somewhat seasonal in nature with the strongest sales generally occurring in the third and fourth quarters

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

INFLATION

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

EXCHANGE RATES

The Company receives U.S. Dollars for substantially all of its product sales and its royalty income. Inventory purchases from offshore contract manufacturers are primarily denominated in U.S. Dollars; however, purchase prices for the Company's products may be impacted by fluctuations in the exchange rate between the U.S. Dollar and the local currencies of the contract manufacturers, which may have the effect of increasing the Company's cost of goods in the future. During 1998 and 1999, exchange rate fluctuations did not have a material impact on the Company's inventory costs. The Company does not engage in hedging activities with respect to such exchange rate risk.

MARKET RISK

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

YEAR 2000 COMPLIANCE

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

Many existing computer programs were designed and developed without regard for the Year 2000 ("Y2K") and beyond. If the Company or its significant third party business partners and intermediaries fail to make necessary modifications, conversions, and contingency plans on a timely basis, the Y2K issue could have a material adverse effect on the Company's business and financial condition. Management believes that its competitors face a similar risk. In recognition of this risk, the Company has established a project team to assess, remediate, test and develop contingency plans.

State of Readiness

The Company has developed a Y2K plan with the objective of having all of its

information technology ("IT") systems compliant in a timely manner. Currently all significant IT systems are compliant except minor modifications which will be completed in November 1999. The Company's significant IT systems include its order management and inventory system, electronic data interchange ("EDI") system, distribution center processing system, retail merchandise and point of sale system, financial applications system, local area network and personal computers. The Company tested and completed Y2K changes to its order management and inventory system in July 1999. The Company tested and completed Y2K changes to its EDI system related to inbound transactions from customers in July 1999. The Company began contacting its EDI trading customers and discuss their Y2K readiness to receive the Company's outbound transactions in August 1999. The Company has completed substantially all Y2K changes to its distribution center processing system except for upgrading the operating system to the Y2K version. Upgrade to the Y2K version is part of the Company's on-going maintenance contract with its vendor. The Company is upgrading the operating system with implementation targeted for November 1999. The Company has completed substantially all Y2K changes to its retail merchandise and point of sale system. The Company's financial applications system was upgraded with testing and implementation completed in May 1999. The system upgrades for the Company's financial application systems began in 1998 for the purpose of enhancing system functionality to accommodate the Company's expanding business and related information needs. The Company's local area network hardware and software providers have advised the Company that such systems are Y2K compliant. The Company has completed Y2K changes to its personal computers .

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

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

Risks and Contingency Plans

The Company is not aware of any material operational issues associated with preparing its internal systems for the Y2K, however, there is no assurance that there will not be a delay in the implementation. The Company's inability to implement such systems and changes in a timely manner could have a material adverse effect on future results of operations, financial condition and cash flows.

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

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

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

Costs

The Company estimates its costs associated with becoming Y2K compliant will be less than $100,000, exclusive of system upgrades incurred in the normal course

of business. Efforts to modify the Company's IT systems have substantially been performed internally, however, the Company does not separately track such costs. These costs primarily relate to salaries and wages which are expensed as incurred.

FUTURE ACCOUNTING CHANGES

In September 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). SFAS No. 133 modifies the accounting for derivative and hedging activities and is effective for fiscal years beginning after September 15, 2000. Since the Company does not presently hold any derivatives or engage in hedging activities, accordingly SFAS No. 133 should not impact the Company's financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK -- Not Applicable

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company filed a complaint captioned Skechers U.S.A., Inc. v. Wolverine World Wide, Inc., et al, on October 13, 1998 in the United States District Court for the Central District of California, Los Angeles, Case No. 98-8335 DT alleging various causes of action relating to trade dress infringement. On December 10, 1998, certain of the defendants counter claimed against the Company for claims relating to design patent and trade dress infringement. The complaint and counter claim were resolved in September 1999. The terms of the resolution are confidential, however, such resolution did not have a material impact on the Company's financial position or results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS -- Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES -- Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS -- Not Applicable

ITEM 5. OTHER INFORMATION-- Not Applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K --

(a) Exhibits

27 Financial Data Schedule

(b) Reports on Form 8-K

None.

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.

SKECHERS U.S.A, INC.

Dated: November 10, 1999 /s/ David Weinberg

David Weinberg
Executive Vice President and Chief
Financial Officer

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