
**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 March 31, 2018

OR

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

For the transition period from ____ to ____

Commission File Number 001-14429

SKECHERS U.S.A., INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

**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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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"/> (Do not check if a smaller reporting company)	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 May 1, 2018: 135,799,652.

The number of shares of Class B Common Stock outstanding as of May 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)**

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 700,071	\$ 736,431
Trade accounts receivable, less allowances of \$19,885 in 2018 and \$51,180 in 2017	692,569	405,921
Other receivables	31,271	27,083
Total receivables	723,840	433,004
Inventories	800,323	873,016
Prepaid expenses and other current assets	68,920	62,573
Total current assets	2,293,154	2,105,024
Property, plant and equipment, net	552,540	541,601
Deferred tax assets	29,575	29,922
Other assets, net	60,715	58,535
Total non-current assets	642,830	630,058
TOTAL ASSETS	\$ 2,935,984	\$ 2,735,082
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of long-term borrowings	\$ 1,805	\$ 1,801
Short-term borrowings	12,200	8,011
Accounts payable	524,427	505,334
Accrued expenses	135,588	82,202
Total current liabilities	674,020	597,348
Long-term borrowings, excluding current installments	70,646	71,103
Deferred tax liabilities	161	161
Other long-term liabilities	107,832	118,259
Total non-current liabilities	178,639	189,523
Total liabilities	852,659	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; 132,414 and 131,784 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	132	132
Class B common stock, \$0.001 par value; 75,000 shares authorized; 24,163 and 24,545 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	24	24
Additional paid-in capital	450,377	453,417
Accumulated other comprehensive loss	(12,250)	(14,744)
Retained earnings	1,507,887	1,390,235
Skechers U.S.A., Inc. equity	1,946,170	1,829,064
Non-controlling interests	137,155	119,147
Total stockholders' equity	2,083,325	1,948,211
TOTAL LIABILITIES AND EQUITY	\$ 2,935,984	\$ 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 March 31,	
	2018	2017
Net sales	\$ 1,250,078	\$ 1,072,808
Cost of sales	666,974	596,310
Gross profit	583,104	476,498
Royalty income	5,522	4,230
	588,626	480,728
Operating expenses:		
Selling	84,446	73,809
General and administrative	355,381	282,496
	439,827	356,305
Earnings from operations	148,799	124,423
Other income (expense):		
Interest income	755	413
Interest expense	(1,078)	(1,490)
Other, net	3,403	696
Total other income (expense)	3,080	(381)
Earnings before income tax expense	151,879	124,042
Income tax expense	14,621	17,407
Net earnings	137,258	106,635
Less: Net earnings attributable to non-controlling interests	19,606	12,640
Net earnings attributable to Skechers U.S.A., Inc.	\$ 117,652	\$ 93,995
Net earnings per share attributable to Skechers U.S.A., Inc.:		
Basic	\$ 0.75	\$ 0.61
Diluted	\$ 0.75	\$ 0.60
Weighted average shares used in calculating net earnings per share attributable to Skechers U.S.A., Inc.:		
Basic	156,433	155,097
Diluted	157,630	155,927

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 March 31,	
	2018	2017
Net earnings	\$ 137,258	\$ 106,635
Other comprehensive income, net of tax:		
Gain on foreign currency translation adjustment	5,333	4,583
Comprehensive income	142,591	111,218
Less: Comprehensive income attributable to non-controlling interests	22,445	14,323
Comprehensive income attributable to Skechers U.S.A., Inc.	\$ 120,146	\$ 96,895

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)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net earnings	\$ 137,258	\$ 106,635
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, plant and equipment	24,175	18,879
Amortization of other assets	3,001	3,454
Provision for bad debts and returns	13,571	11,988
Non-cash share-based compensation	8,678	6,628
Deferred income taxes	435	—
Gain (loss) on non-current assets	17	(585)
Net foreign currency adjustments	(469)	(492)
(Increase) decrease in assets:		
Receivables	(275,837)	(233,676)
Inventories	79,926	117,963
Prepaid expenses and other current assets	(7,910)	(180)
Other assets	(711)	(4,087)
Increase (decrease) in liabilities:		
Accounts payable	11,097	(98,279)
Accrued expenses and other long-term liabilities	10,307	(12,653)
Net cash provided by (used in) operating activities	<u>3,538</u>	<u>(84,405)</u>
Cash flows from investing activities:		
Capital expenditures	(34,464)	(28,882)
Purchases of investments	(1,468)	(684)
Proceeds from sales of investments	347	240
Net cash used in investing activities	<u>(35,585)</u>	<u>(29,326)</u>
Cash flows from financing activities:		
Payments on long-term debt	(458)	(444)
Proceeds from long-term debt	—	2,065
Proceeds (payments) from short-term borrowings	4,189	(219)
Payments for taxes related to net share settlement of equity awards	(8,718)	—
Repurchase of Class A common stock	(3,000)	—
Distributions to non-controlling interests of consolidated entity	(4,437)	(892)
Contributions from non-controlling interests of consolidated entity	—	46
Net cash provided by (used in) financing activities	<u>(12,424)</u>	<u>556</u>
Net decrease in cash and cash equivalents	(44,471)	(113,175)
Effect of exchange rates on cash and cash equivalents	8,111	2,452
Cash and cash equivalents at beginning of the period	736,431	718,536
Cash and cash equivalents at end of the period	<u>\$ 700,071</u>	<u>\$ 607,813</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,080	\$ 1,455
Income taxes, net	16,283	10,538

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 three months ended March 31, 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 carrying amount of the Company's financial instruments, which principally include cash and cash equivalents, accounts receivable, 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 2). 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 March 31, 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

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 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 as earned (i.e., as licensed sales are reported to the Company or on a straight-line basis over the term of the agreement). The first calculated royalty payment is based on actual sales of the licensed product or, in some cases, minimum royalty payments. 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 March 31, 2018 and December 31, 2017, the Company’s sales returns reserve totaled \$30.7 million and \$43.4 million, respectively, and was included in other accrued liabilities and accounts receivable in the condensed consolidated balance sheet, respectively.

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 is January 1, 2018, and there will be two methods of adoption allowed, either a full retrospective adoption or a modified retrospective adoption. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 to the first quarter of 2018. In March 2016, April 2016, May 2016, and December 2016, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20, respectively, as clarifications to ASU 2014-09. ASU 2016-08 clarifies how to identify the unit of accounting for the principal versus agent evaluation, how to apply the control principle to certain types of arrangements, such as service transactions, and reframed the indicators in the guidance to focus on evidence that an entity is acting as a principal rather than as an agent. ASU 2016-10 clarifies the existing guidance on identifying performance obligations and licensing implementation. ASU 2016-12 adds practical expedients related to the transition for contract modifications and further defines a completed contract, clarifies the objective of the collectability assessment and how revenue is recognized if collectability is not probable, and when non-cash considerations should be measured. ASU 2016-20 corrects or improves guidance in thirteen narrow focus aspects of the guidance. The effective dates for these

ASUs are the same as the effective date for ASU No. 2014-09, for the Company's annual and interim periods beginning January 1, 2018. These ASU's also require enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows. The Company 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.

Recent Accounting Pronouncements

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

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

The Company had \$4.4 million of outstanding letters of credit as of March 31, 2018 and December 31, 2017, respectively, and approximately \$12.2 million and \$8.0 million in short-term borrowings as of March 31, 2018 and December 31, 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Note payable to banks, due in monthly installments of \$337.1 (includes principal and interest), variable-rate interest at 3.88% per annum, secured by property, balloon payment of \$62,843 due August 2020	\$ 66,240	\$ 66,604
Note payable to Luen Thai Enterprise, Ltd., balloon payment of \$5,741 due January 2021	5,741	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	470	555
Subtotal	<u>72,451</u>	<u>72,904</u>
Less current installments	<u>1,805</u>	<u>1,801</u>
Total long-term borrowings	<u>\$ 70,646</u>	<u>\$ 71,103</u>

The Company's long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. The Company is in compliance with its non-financial covenants, including any cross-default provisions and financial covenants of its long-term borrowings as of March 31, 2018.

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 March 31, 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 March 31, 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 the Company's consolidated statement of equity within non-controlling interests. The Amended Loan Agreement and the Swap Agreement are subject to customary covenants and events of default. Bank of America, N.A. also acts as a lender and syndication agent under the Credit Agreement dated June 30, 2015.

(3) NON-CONTROLLING INTERESTS

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Company's products primarily throughout Asia 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):

	December 31,	
	March 31, 2018	2017
HF Logistics-SKX, LLC		
Current assets	\$ 2,474	\$ 1,540
Non-current assets	102,093	103,407
Total assets	<u>\$ 104,567</u>	<u>\$ 104,947</u>
Current liabilities	\$ 3,155	\$ 2,718
Non-current liabilities	65,914	66,367
Total liabilities	<u>\$ 69,069</u>	<u>\$ 69,085</u>
	December 31,	
	March 31, 2018	2017
Distribution joint ventures (1)		
Current assets	\$ 490,142	\$ 389,687
Non-current assets	89,940	90,972
Total assets	<u>\$ 580,082</u>	<u>\$ 480,659</u>
Current liabilities	\$ 250,847	\$ 188,700
Non-current liabilities	6,072	9,201
Total liabilities	<u>\$ 256,919</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 March 31,	
	2018	2017
Net earnings attributable to non-controlling interests	\$ 19,606	\$ 12,640
Distributions to:		
HF Logistics-SKX, LLC	1,327	892
Skechers China Limited	3,110	—
Contributions from:		
Skechers Footwear Ltd. (Israel)	—	46

(4) STOCKHOLDERS' EQUITY

During the three months ended March 31, 2018, 381,876 shares of Class B common stock were converted into shares of Class A common stock. During the three months ended March 31, 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):

	Three Months Ended March 31,	
	2018	2017
Non-controlling interests, beginning of period	\$ 119,147	\$ 81,881
Net earnings	19,606	12,640
Foreign currency translation adjustment	2,839	1,683
Capital contributions	—	46
Capital distributions	(4,437)	(892)
Non-controlling interests, end of period	<u>\$ 137,155</u>	<u>\$ 95,358</u>

(5) 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. 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 months ended March 31, 2018:

	March 31, 2018
Shares repurchased	75,991
Average cost per share	\$ 39.47
Total cost of shares repurchased	\$ 3,000,000

(6) 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):

<u>Basic earnings per share</u>	<u>Three Months Ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Net earnings attributable to Skechers U.S.A., Inc.	\$ 117,652	\$ 93,995
Weighted average common shares outstanding	156,433	155,097
Basic earnings per share attributable to Skechers U.S.A., Inc.	\$ 0.75	\$ 0.61

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):

<u>Diluted earnings per share</u>	<u>Three Months Ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Net earnings attributable to Skechers U.S.A., Inc.	\$ 117,652	\$ 93,995
Weighted average common shares outstanding	156,433	155,097
Dilutive effect of nonvested shares	1,197	830
Weighted average common shares outstanding	<u>157,630</u>	<u>155,927</u>
Diluted earnings per share attributable to Skechers U.S.A., Inc.	\$ 0.75	\$ 0.60

There were 190,364 and 126,636 shares excluded from the computation of diluted earnings per share for the three months ended March 31, 2018 and 2017, respectively because they are anti-dilutive.

(7) STOCK COMPENSATION

(a) Incentive Award Plan

On April 16, 2007, the Company's Board of Directors adopted the 2007 Incentive Award Plan (the "2007 Plan"), which became effective upon approval by the Company's stockholders on May 24, 2007 and expired pursuant to its terms on May 24, 2017.

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 Plan. 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 \$8.7 million and \$6.6 million for the three months ended March 31, 2018 and 2017, respectively. During the quarter ended March 31, 2018, the Company redeemed 212,930 shares of Class A Common Stock for \$8.7 million to satisfy employee tax withholding requirements.

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 three months ended March 31, 2018 is presented below:

	<u>Shares</u>	<u>Weighted Average Grant-Date Fair Value</u>
Nonvested at December 31, 2017	2,303,557	\$ 26.25
Granted	1,637,500	39.00
Vested	(537,500)	18.93
Cancelled	(18,333)	30.89
Nonvested at March 31, 2018	<u>3,385,224</u>	<u>33.55</u>

As of March 31, 2018, there was \$92.4 million of unrecognized compensation cost related to nonvested common shares. The cost is expected to be amortized over a weighted average period of 3.0 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 will have 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 sale under the 2018 ESPP.

(8) INCOME TAXES

Income tax expense and the effective tax rate for the three months ended March 31, 2018 and 2017 were as follows (in thousands, except the effective tax rate):

	<u>Three Months Ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Income tax expense	\$ 14,621	\$ 17,407
Effective tax rate	9.6%	14.0%

The tax provisions for the three months ended March 31, 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 annual tax rate for 2018 to be between 12% and 17%, which 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 25%. 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 months ended March 31, 2018.

The 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 three months ended March 31, 2018, the Company obtained additional information which reduced the Company’s provisional accounting for certain tax effects of the Tax Act by \$8.0 million, from \$99.9 million as reported at December 31, 2017, to \$91.9 million at March 31, 2018. Additional work is still necessary to complete a more detailed analysis of the Company’s accounting for certain tax effects of the Tax Act. 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 the three months ended March 31, 2018, the decrease in the Company’s effective tax rate as compared to the three months ended March 31, 2017, was primarily due to an \$8.0 million reduction in the Company’s accounting for certain tax effects of the Tax Act, and an increase of \$1.1 million in excess tax benefits under ASU 2016-09.

As of March 31, 2018, the Company had approximately \$700.1 million in cash and cash equivalents, of which \$297.4 million, or 42.5%, was held outside the U.S. Of the \$297.4 million held by the Company’s non-U.S. subsidiaries, approximately \$124.9 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 March 31, 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 March 31, 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.

(9) 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 \$317.8 million and \$206.1 million before allowances for bad debts, sales returns and chargebacks at March 31, 2018 and December 31, 2017, respectively. Foreign accounts receivable, which in some cases are collateralized by letters of credit, were \$394.6 million and \$251.0 million before allowance for bad debts, sales returns and chargebacks at March 31, 2018 and December 31, 2017, respectively. The Company’s credit losses attributable to write-offs for the three months ended March 31, 2018 and 2017 were \$2.0 million and \$0.1 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 \$1.364 billion and \$1.273 billion at March 31, 2018 and December 31, 2017, respectively.

The Company’s net sales to its five largest customers accounted for approximately 10.8% and 13.2% of total net sales for the three months ended March 31, 2018 and 2017, respectively. No customer accounted for more than 10.0% of the Company’s net sales during the three months ended March 31, 2018 and 2017. No customer accounted for more than 10.0% of trade receivables at March 31, 2018 or December 31, 2017.

The Company's top five manufacturers produced the following, as a percentage of total production, for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Manufacturer #1	15.5 %	22.8 %
Manufacturer #2	11.9 %	10.9 %
Manufacturer #3	8.6 %	9.4 %
Manufacturer #4	6.9 %	5.6 %
Manufacturer #5	5.4 %	4.6 %
	<u>48.3 %</u>	<u>53.3 %</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 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.

(10) 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 March 31,	
	2018	2017
Net sales:		
Domestic wholesale	\$ 389,029	\$ 358,432
International wholesale	578,003	490,452
Retail	283,046	223,924
Total	<u>\$ 1,250,078</u>	<u>\$ 1,072,808</u>

	Three Months Ended March 31,	
	2018	2017
Gross profit:		
Domestic wholesale	\$ 142,143	\$ 139,808
International wholesale	279,362	210,314
Retail	161,599	126,376
Total	<u>\$ 583,104</u>	<u>\$ 476,498</u>

	March 31,	December 31,
	2018	2017
Identifiable assets:		
Domestic wholesale	\$ 1,367,211	\$ 1,259,119
International wholesale	1,196,652	1,116,928
Retail	372,121	359,035
Total	<u>\$ 2,935,984</u>	<u>\$ 2,735,082</u>

	Three Months Ended March 31,	
	2018	2017
Additions to property, plant and equipment:		
Domestic wholesale	\$ 11,375	\$ 1,533
International wholesale	10,938	11,793
Retail	12,151	15,556
Total	\$ 34,464	\$ 28,882

Geographic Information:

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

	Three Months Ended March 31,	
	2018	2017
Net Sales (1):		
United States	\$ 575,525	\$ 522,796
Canada	57,040	48,228
Other international (2)	617,513	501,784
Total	\$ 1,250,078	\$ 1,072,808

	March 31,	December 31,
	2018	2017
Property, plant and equipment, net:		
United States	\$ 391,607	\$ 382,426
Canada	9,421	9,888
Other international (2)	151,512	149,287
Total	\$ 552,540	\$ 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.

(11) 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 March 31, 2018, the Company did not make any contributions to the Foundation. The Company made a contribution to the Foundation of \$250,000 during the three months ended March 31, 2017.

(12) 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 March 31, 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 March 31, 2018 were \$1.250 billion, an increase of \$177.2 million, or 16.5%, as compared to net sales of \$1.073 billion for the three months ended March 31, 2017, which was attributable to increased sales across all of our business segments. Gross margins increased to 46.6% for the three months ended March 31, 2018 from 44.4% for the same period in the prior year. Net earnings attributable to Skechers U.S.A., Inc. were \$117.7 million for the three months ended March 31, 2018, an increase of \$23.7 million, or 25.2%, compared to net earnings of \$94.0 million in the prior-year period. Diluted net earnings per share attributable to Skechers U.S.A., Inc. for the three months ended March 31, 2018 were \$0.75, which reflected a 25.0% increase from the \$0.60 diluted net earnings per share reported in the same prior-year period. The increase in net earnings and

diluted net earnings per share attributable to Skechers U.S.A., Inc. for the three months ended March 31, 2018 was due to increased net sales and gross margins and a lower effective tax rate which were partially offset by increased selling expenses of \$10.6 million and increased general and administrative expenses of \$72.9 million. The results of operations for the three months ended March 31, 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 March 31,	
	2018	2017
Percentage of revenues by segment:		
Domestic wholesale	31.1 %	33.4 %
International wholesale	46.2 %	45.7 %
Retail	22.7 %	20.9 %
Total	<u>100.0 %</u>	<u>100.0 %</u>

As of March 31, 2018, we owned and operated 657 stores, which included 454 domestic retail stores and 203 international retail stores. We have established our presence in what we believe to be most of the major domestic retail markets. During the first three months of 2018, we opened eight domestic warehouse stores, six international concept stores, and one international outlet store. In addition, we closed three 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, 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, and (iv) strategically expanding our retail distribution channel by opening another 60 to 75 Company-owned retail stores during the remainder of the year.

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 March 31,			
	2018		2017	
Net sales	\$ 1,250,078	100.0 %	\$ 1,072,808	100.0 %
Cost of sales	666,974	53.4	596,310	55.6
Gross profit	583,104	46.6	476,498	44.4
Royalty income	5,522	0.4	4,230	0.4
	<u>588,626</u>	<u>47.0</u>	<u>480,728</u>	<u>44.8</u>
Operating expenses:				
Selling	84,446	6.8	73,809	6.9
General and administrative	355,381	28.4	282,496	26.3
	<u>439,827</u>	<u>35.2</u>	<u>356,305</u>	<u>33.2</u>
Earnings from operations	148,799	11.8	124,423	11.6
Interest income	755	0.1	413	—
Interest expense	(1,078)	(0.1)	(1,490)	(0.1)
Other, net	3,403	0.3	696	0.1
Earnings before income tax expense	151,879	12.1	124,042	11.6
Income tax expense	14,621	1.1	17,407	1.7
Net earnings	137,258	11.0	106,635	9.9
Less: Net earnings attributable to non-controlling interests	19,606	1.6	12,640	1.1
Net earnings attributable to Skechers U.S.A., Inc.	<u>\$ 117,652</u>	<u>9.4 %</u>	<u>\$ 93,995</u>	<u>8.8 %</u>

THREE MONTHS ENDED MARCH 31, 2018 COMPARED TO THREE MONTHS ENDED MARCH 31, 2017

Net sales

Net sales for the three months ended March 31, 2018 were \$1.250 billion, an increase of \$177.2 million, or 16.5%, as compared to net sales of \$1.073 billion for the three months ended March 31, 2017. The increase in net sales came from all our business segments with the largest increases attributable to our international wholesale and global retail businesses from our Women's and Men's Go, Men's Sport, Women's U.S.A., You by Skechers, and Cali divisions.

Our domestic wholesale net sales increased \$30.6 million, or 8.5%, to \$389.0 million for the three months ended March 31, 2018 from \$358.4 million for the three months ended March 31, 2017. The increase in the domestic wholesale segment's net sales was primarily the result of a 15.1% unit sales volume increase to 19.0 million pairs for the three months ended March 31, 2018 from 16.5 million pairs for the same period in 2017. The increase in our domestic wholesale segment was primarily attributable to increased sales in our Women's and Men's Go, Men's Sport, Women's U.S.A., Kids', and You by Skechers divisions. The average selling price per pair within the domestic wholesale decreased to \$20.53 per pair for the three months ended March 31, 2018 compared to \$21.77 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 \$87.5 million, or 17.9%, to \$578.0 million for the three months ended March 31, 2018 compared to sales of \$490.5 million for the three months ended March 31, 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 \$105.4 million, or 25.7%, to \$515.7 million for the three months ended March 31, 2018 compared to net sales of \$410.3 million for the three months ended March 31, 2017. The largest sales increases during the quarter came from our European subsidiaries and our joint ventures in China and South Korea, primarily due to increased sales of product from our Women's Sport, Men's Sport and Kids' divisions. Our distributor sales decreased \$17.8 million to \$62.3 million for the three months ended March 31, 2018, a 22.2% decrease from sales of \$80.1 million for the three months ended March 31, 2017. The decrease was primarily due to decreased sales to our distributors in the U.A.E. and the Philippines.

Our retail segment sales increased \$59.1 million to \$283.0 million for the three months ended March 31, 2018, an 26.4% increase over sales of \$223.9 million for the three months ended March 31, 2017. The increase in retail sales was primarily attributable to operating an additional net 73 stores and increased comparable store sales of 9.5% resulting from increased sales across several key divisions, including Women's and Men's Sport, Men's USA and Skecher Street divisions. During the first quarter of 2018, we opened eight domestic warehouse stores, six international concept stores, and one international outlet store. In addition, we closed three domestic concept stores. For the three months ended March 31, 2018, our domestic retail sales increased 13.5% compared to the same period in 2017, which was primarily attributable to positive comparable domestic store sales of 7.0% and a net increase of 32 domestic stores. Our international retail store sales increased 62.1% compared to the same period in 2017, which was primarily attributable to positive comparable international store sales of 17.6% and a net increase of 41 international stores compared to the prior period.

Gross profit

Gross profit for the three months ended March 31, 2018 increased \$106.6 million, or 22.4%, to \$583.1 million as compared to \$476.5 million for the three months ended March 31, 2017. Gross profit as a percentage of net sales, or gross margins, increased to 46.7% for three-month period ended March 31, 2018 from 44.4% for the same period in the prior year. Our domestic wholesale segment gross profit increased \$2.3 million to \$142.1 million for the three months ended March 31, 2018 as compared to \$139.8 million for the three months ended March 31, 2017, primarily due to an increase in pairs sold which was offset by lower average selling prices. Domestic wholesale margins decreased to 36.5% for the three months ended March 31, 2018 from 39.0% for the three months ended March 31, 2017 primarily from lower average selling prices.

Gross profit for our international wholesale segment increased \$69.1 million, or 32.8%, to \$279.4 million for the three months ended March 31, 2018 as compared to \$210.3 million for the three months ended March 31, 2017. International wholesale gross margins were 48.3% for the three months ended March 31, 2018 compared to 42.9% for the three months ended March 31, 2017. Gross margins for our direct subsidiary sales increased to 51.1% for the three months ended March 31, 2018 compared to 46.0% for the three months ended March 31, 2017. The increase in international wholesale gross margins was attributable to positive foreign currency rates and a product sales mix with higher average sales margins. Gross margins for our distributor sales were 25.2% for the three months ended March 31, 2018 compared to 26.7% for the three months ended March 31, 2017, which was due to a product sales mix with lower average gross margins.

Gross profit for our retail segment increased \$35.2 million, or 27.9%, to \$161.6 million for the three months ended March 31, 2018 as compared to \$126.4 million for the three months ended March 31, 2017. Gross margins for all our company-owned domestic and international stores and our e-commerce business were 57.1% for the three months ended March 31, 2018 as compared to 56.4% for the three months ended March 31, 2017. Gross margins for our domestic stores, which include e-commerce, were 58.5% and 58.4% for the three months ended March 31, 2018 and 2017, respectively. Gross margins for our international stores were 54.4% for the three months ended March 31, 2018 as compared to 51.0% for the three months ended March 31, 2017. The increase in international retail gross margins was attributable to positive foreign currency rates and a product sales mix with higher average margins.

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

Selling expenses

Selling expenses increased by \$10.6 million, or 14.4%, to \$84.4 million for the three months ended March 31, 2018 from \$73.8 million for the three months ended March 31, 2017. As a percentage of net sales, selling expenses were 6.8% and 6.9% for the three months ended March 31, 2018 and 2017, respectively. The \$10.6 million dollar increase was primarily due to international advertising expenses to support the growth in our international business.

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 \$72.9 million, or 25.8%, to \$355.4 million for the three months ended March 31, 2018 from \$282.5 million for the three months ended March 31, 2017. As a percentage of sales, general and administrative expenses were 28.4% and 26.3% for the three months ended March 31, 2018 and 2017, respectively. The \$72.9 million increase in general and administrative expenses was primarily attributable to approximately \$37.4 million related to supporting our international wholesale operations due to increased sales volumes and expansion in Asia, and \$9.1 million and \$9.2 million of additional operating expenses attributable to opening and operating 41 new international retail stores and 32 new domestic retail stores, respectively, since March 31, 2017. In addition, the expenses related to our distribution network, including purchasing, receiving, inspecting, allocating, warehousing and packaging of our products, increased \$9.4 million to \$70.6 million for the three months ended March 31, 2018 as compared to \$61.2 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 was \$0.8 million and \$0.4 million for the three months ended March 31, 2018 and 2017, respectively. Interest expense decreased by \$0.4 million to \$1.1 million for the three months ended March 31, 2018 compared to \$1.5 million for the same period in 2017. Interest expense decreased primarily due to reduced interest paid to our foreign manufacturers. Other income increased \$2.7 million to \$3.4 million for the three months ended March 31, 2018 as compared to other income of \$0.7 million for the same period in 2017. The increase in other income was primarily attributable to foreign currency exchange gain of \$3.4 million for the three months ended March 31, 2018, as compared to a foreign currency exchange gain of \$0.9 million for the three months ended March 31, 2017. This increased foreign currency exchange gain was primarily attributable to the impact of a weaker 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 March 31, 2018 and 2017 were as follows (in thousands, except the effective tax rate):

	Three Months Ended March 31,	
	2018	2017
Income tax expense	\$ 14,621	\$ 17,407
Effective tax rate	9.6%	14.0%

The tax provisions for the three months ended March 31, 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 for 2018 to be approximately between 12% and 17%, which 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 are generally significantly lower than the U.S. federal and state combined statutory rate of approximately 25%.

For the three months ended March 31, 2018, the decrease in the effective tax rate was primarily due to an \$8.0 million reduction in our estimated provisional 2017 Transition Tax liability, from \$99.9 million as reported at December 31, 2017 to \$91.9 million at March 31, 2018. In addition, we recorded a \$1.1 million increase in excess tax benefits under ASU 2016-09 of \$2.5 million for the three months ended March 31, 2018 as compared to \$1.4 million for the three months ended March 31, 2017.

As of March 31, 2018, we had approximately \$700.1 million in cash and cash equivalents, of which \$297.4 million, or 42.5%, was held outside the U.S. Of the \$297.4 million held by our non-U.S. subsidiaries, approximately \$124.9 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 March 31, 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, 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 March 31, 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 March 31, 2018 increased \$7.0 million to \$19.6 million as compared to \$12.6 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.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our working capital at March 31, 2018 was \$1.619 billion, an increase of \$111.5 million from working capital of \$1.508 billion at December 31, 2017. Our cash and cash equivalents at March 31, 2018 were \$700.1 million, compared to \$736.4 million at December 31, 2017. The decrease in cash and cash equivalents of \$36.3 million, after consideration of the effect of exchange rates, was the result of increased accounts receivable of \$275.8 million due to increased revenues, \$30.7 million due to the reclassification of our return reserve, which were partially offset by reduced inventories of \$79.9 million, an increase in accounts payable of \$11.1 million and our net earnings of \$137.3 million. Our primary sources of operating cash are collections from customers on wholesale and retail sales. Our primary uses of cash are inventory purchases, selling, general and administrative expenses, and capital expenditures.

Operating Activities

For the three months ended March 31, 2018, net cash provided by operating activities was \$3.5 million as compared to net cash used in operating activities of \$84.4 million for the three months ended March 31, 2017. The \$87.9 million increase in cash flows provided by operating activities for the three months ended March 31, 2018, primarily resulted from a larger increase in cash flows from accounts payable from increased inventory purchases and accrued expenses of \$132.3 million and higher net earnings of \$30.7 million, which were partially offset by a larger decrease in cash flows from accounts receivable of \$42.2 million from increased sales and a smaller decrease inventory of \$38.0 million.

Investing Activities

Net cash used in investing activities was \$35.6 million for the three months ended March 31, 2018 as compared to \$29.3 million for the three months ended March 31, 2017. The \$6.3 million increase in net cash used in investing activities for the three months ended March 31, 2018 as compared to the same period in the prior year was primarily the result of higher capital expenditures of \$5.6 million. Capital expenditures were \$34.5 million for the three months ended March 31, 2018 primarily consisted of \$12.2 million for new store openings and remodels and \$6.9 million to support our international wholesale operations. This was compared to capital expenditures of \$28.9 million for the three months ended March 31, 2017, which consisted of \$17.9 million for new store openings and remodels and \$2.0 million paid for equipment costs for increased automation at our European Distribution Center. We expect our capital expenditures for the remainder of 2018 to be approximately \$50.0 million to \$55.0 million, which includes opening an additional 60 to 75 Company-owned retail stores and several store remodels and investments in our international operations. We expect to fund all our capital expenditures through existing cash balances and cash from operations.

Financing Activities

Net cash used in financing activities was \$12.4 million during the three months ended March 31, 2018 compared to \$0.6 million in net cash provided by financing activities during the three months ended March 31, 2017. The \$13.0 million increase in cash used in financing activities for the three months ended March 31, 2018 as compared to the same period in the prior year is primarily attributable to increased payments for taxes related to net share settlement of equity awards of \$8.7 million, and repurchases of our Class A common stock of \$3.0 million, increased distributions to non-controlling interests of \$3.5 million, which was partially offset by proceeds from short-term borrowings of \$4.4 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 March 31, 2018, there was \$147.0 million available under the Share Repurchase Program.

Financing Arrangements

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 March 31, 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 March 31, 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 \$66.2 million outstanding under the Amended Loan Agreement, of which \$1.5 million and \$64.7 million is included in current installments of long-term borrowings and long-term borrowings, respectively, as of March 31, 2018.

As of March 31, 2018, outstanding short-term and long-term borrowings were \$84.7 million, of which \$66.7 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 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 May 31, 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 levels of advertising and marketing required to promote our footwear, the extent to which we invest in new product design and improvements to our existing product design, any potential acquisitions of other brands or companies, and the number and timing of new store openings 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.

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 March 31, 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 three 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 March 31, 2018, we have \$12.2 million and \$66.2 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 \$0.2 million for the quarter ended March 31, 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 and our domestic distribution center loan is based on the one month LIBOR. Changes in the prime rate of interest or the LIBOR interest rate will have an effect on the interest charged on outstanding balances.

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 March 31, 2018 to hedge the cash flows on our \$66.2 million variable rate debt on our domestic distribution center. This instrument was a variable to fixed derivative with a notional amount of \$66.2 million at March 31, 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 gain of \$2.5 million and \$2.9 million for the three months ended March 31, 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 March 31, 2018 would have reduced the values of our net investments by approximately \$26.6 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 March 31, 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, and on February 8, 2018 the court heard oral argument. While it is too early to predict the outcome of these legal proceedings or whether an adverse result in either or both of them would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend these legal matters vigorously.

adidas America, Inc., et. al v. Skechers USA, Inc. — On September 14, 2015, adidas filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:15-cv-1741, alleging that three Skechers shoe styles (Skechers Onix, Skechers Relaxed Fit Cross Court TR, and Skechers Relaxed Fit – Supernova Style) infringe adidas' trademarks and/or trade dress rights. adidas asserts claims under federal and state law for trademark and trade dress infringement, unfair competition, trademark and trade dress dilution, unfair and deceptive trade practices, and breach of a settlement agreement entered into between the parties in 1995. adidas seeks injunctive relief, disgorgement of Skechers' profits, damages (including treble, enhanced and punitive damages), and attorneys' fees. On September 14, 2015, adidas filed a motion for preliminary injunction in which it sought to preliminarily restrain us from manufacturing, distributing, advertising, selling, or offering for sale any footwear (a) that is confusingly similar to adidas' STAN SMITH Trade Dress, (b) bearing stripes in a manner that is confusingly similar to adidas' Three-Stripe Mark, or (c) under adidas' SUPERNOVA Mark. We opposed adidas' motion. A hearing on adidas' motion was held on December 15, 2015. On February 12, 2016, the Court issued a preliminary injunction prohibiting us from selling two styles from our vast footwear collection and from using the word "Supernova" in connection with a third style. We have appealed the Court's order granting the injunction to the United States Court of Appeals for the Ninth Circuit. Trial has been continued from April 3, 2018 until June 4, 2018. While it is too early to predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

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

adidas America, Inc. and adidas AG v. Skechers USA, Inc.— On July 11, 2016, adidas filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:16-cv-01400-AC, alleging that certain of our children’s styles (Boys’ Mega Blade 2.0 and 2.5) infringe two of adidas’ patents. The complaint seeks, among other things, injunctive relief and damages (including treble damages). On July 28, 2016, adidas filed a motion for a preliminary injunction, asking the Court to preliminarily restrain Skechers from importing, manufacturing, distributing, advertising, selling, or offering for sale any of the accused styles. In related activity, on April 26, 2017, the United States Patent and Trial Appeal Board (the “PTAB”) granted two petitions by Skechers and instituted inter partes review proceedings as to certain claims under the two patents at issue in this litigation, finding that Skechers had “establishe[d] a reasonable likelihood that [it] will prevail in showing the unpatentability of at least one of the claims” in each patent. The PTAB subsequently denied two other inter partes review petitions filed by Skechers with respect to the same two adidas patents, and then granted a third petition for additional claims in one of the same patents on August 15, 2017. On June 12, 2017, the Court denied adidas’ motion for a preliminary injunction and stayed the lawsuit pending the outcome of the three PTAB proceedings. On July 10, 2017, adidas filed a notice of appeal of the Court’s denial of its motion for preliminary injunction, but subsequently abandoned that appeal. On April 25, 2018, PTAB issued final decisions in the first two inter partes review proceedings, rejecting the invalidity challenges made by company in those proceedings. Company plans on appealing both PTAB decisions to the United States Court of Appeals for the Federal Circuit. A decision from PTAB in the third inter partes review proceeding is expected in August 2018. While it is too early to predict the outcome of either the District Court or the PTAB proceedings or whether an adverse result in the District Court case would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

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. 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.

Monique Cadle v. Skechers U.S.A., Inc., Robert Greenberg and David Weinberg. – On October 27, 2017, Monique Cadle filed a securities class action, on behalf of herself 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-08305. 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.

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. 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.

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.

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

During the three months ended March 31, 2018 and 2017, our net sales to our five largest customers accounted for approximately 10.8% and 13.2% of total net sales, respectively. No customer accounted for more than 10.0% of our net sales during the three months ended March 31, 2018 and 2017. No customer accounted for more than 10.0% of outstanding accounts receivable balance at March 31, 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 three months ended March 31, 2018 and 2017, the top five manufacturers of our manufactured products produced approximately 48.3% and 53.3% of our total purchases, respectively. One manufacturer accounted for 15.5% of total purchases for the three months ended March 31, 2018 and the same manufacturer accounted for 22.8% 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 March 31, 2018, our Chairman of the Board and Chief Executive Officer, Robert Greenberg, beneficially owned 75.9% of our outstanding Class B common shares, members of Mr. Greenberg's immediate family beneficially owned an additional 13.2% 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 30.1% 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 March 31, 2018, Mr. Greenberg beneficially owned 35.2% 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 44.3% of the aggregate number of votes eligible to be cast by our stockholders, and Mr. Schwartzberg beneficially owned 19.3% 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

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 March 31, 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 Be Purchased Under the Plans or Programs
January 31, 2018	—	—	—	—	—
February 28, 2018	—	—	—	—	—
March 31, 2018	288,921	\$ 40.56	212,930	75,991	\$ 147,000,000
Total	288,921		212,930	75,991	\$ 147,000,000

(1) The Company repurchased 212,930 shares from certain employees to facilitate income tax withholding payments pertaining to stock-based compensation awards that vested during the three months ended March 31, 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 6. EXHIBITS

Exhibit Number	Description
10.1	<u>Lease agreement dated December 27, 2017 by and between Registrant and Westcore II Newhope, LLC, regarding distribution facility in Moreno Valley, California.</u>
10.2	<u>Employment Agreement, executed April 2, 2018, effective as of January 1, 2018, between the Registrant and David Weinberg.</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.

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: May 4, 2018

SKECHERS U.S.A., INC.

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

22705 NEWHOPE DRIVE

Single Tenant Industrial/Commercial Lease

(Net)

Between

WESTCORE II NEWHOPE, LLC,

a Delaware limited liability company

(LESSOR)

and

SKECHERS U.S.A., INC.,

a Delaware corporation

(LESSEE)

Date: December 27, 2017

SIC: _____

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22705 NEWHOPE DRIVE
Single-Tenant Industrial/Commercial Lease
(Net)

1. Basic Provisions.

1.1 **Parties:** This Lease (“**Lease**”) effective December 27, 2017 (“**Effective Date**”), is made by and between **WESTCORE II NEWHOPE, LLC**, a Delaware limited liability company (“**Lessor**”), and **SKECHERS U.S.A., INC.**, a Delaware corporation (“**Lessee**”) (collectively the “**Parties**,” or individually a “**Party**”).

1.2 **Premises; Parking.**

(a) **Premises:** That certain real property, including all improvements therein, including that certain building (the “**Building**”) consisting of approximately three hundred sixty-six thousand six hundred ninety-eight (366,698) square feet, commonly known by the street address of 22705 Newhope Drive, Moreno Valley, California, as outlined on Exhibit A attached hereto (“**Premises**”). (Also see Paragraph 2.)

(b) **Parking:** Lessee shall be entitled to use all of the vehicle parking spaces located within the Premises (“**Parking Spaces**”). (Also see Paragraph 2.6.)

1.3 **Term:** The term of this Lease shall be for a period of thirty-seven (37) full calendar months (“**Original Term**”) commencing on February 1, 2018 (the “**Commencement Date**”). The term “**Expiration Date**” shall mean the date which is the last day of the thirty-seventh (37th) full calendar month after the Commencement Date. For purposes of this Lease, the “**Term**” of this Lease shall refer to the Original Term, as it may be extended or renewed by any properly exercised options granted hereunder. (Also see Paragraph 3.)

1.4 **Early Access:** Lessee shall be entitled to early possession of the Premises on the date of the execution and delivery of this Lease by both Lessor and Lessee, provided that Lessee has delivered to Lessor advance rent required under Paragraph 1.6 below, the Security Deposit required under Paragraph 1.8 below and the insurance certificates required under Paragraph 8 below (the “**Early Possession Date**”). Lessee shall coordinate such early possession with Lessor and shall not interfere with the performance of the Lessor’s Work by Lessor and its contractors and subcontractors. (Also see Paragraphs 3.2 and 3.3.)

1.5 **Base Rent:** Payable monthly, on the first day of each month, in the amount described below, calculated on a net basis (“**Base Rent**”), and commencing on the Commencement Date. (Also see Paragraph 4.)

<u>Period</u>	<u>Monthly Installment of Base Rent</u>
February 1, 2018 – January 31, 2019 *	\$154,013.16
February 1, 2019 – January 31, 2020	\$158,633.55
February 1, 2020 – January 31, 2021	\$163,392.56
February 1, 2021 – February 28, 2021	\$168,294.33

*Subject to abatement of monthly Base Rent for the second (2nd) and third (3rd) full calendar months of the Original Term in accordance with Paragraph 4.1 of this Lease.

1.6 **Advance Rent Paid Upon Execution:** One Hundred Ninety Six Thousand One Hundred Eighty Three and 43/100 Dollars (\$196,183.43) representing Lessee’s first installment of Base Rent and Lessee’s Share of estimated Operating Expenses due for the Original Term.

1.7 **Intentionally Deleted.**

1.8 **Security Deposit:** One Hundred Fifty Five Thousand Eight Hundred Forty Six and 65/100 Dollars (\$155,846.65) (“**Security Deposit**”). (Also see Paragraph 5)

Initial _____
Initial _____

1.9 **Permitted Use:** Lessee shall use and occupy the Premises solely for the purpose of storage, warehousing, distribution and related general office use and incidental and accessory uses thereto, as may be permitted under existing laws governing the Premises and for no other use or purpose (“**Permitted Use**”). (Also see Paragraph 6.)

1.10 (a) **Real Estate Brokers.** The following real estate broker(s) (collectively, the “**Brokers**”) and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes):

CBRE and Kidder Mathews represents Lessor exclusively (“**Lessor’s Broker**”);

CBRE represents Lessee exclusively (“**Lessee’s Broker**”); or

_____ represents both Lessor and Lessee (“**Dual Agency**”). (Also see Paragraph 15.)

(b) **Payment to Brokers.** Following the execution of this Lease by both Parties, Lessor shall pay to said Broker(s) jointly, or in such separate shares as they may mutually designate in writing, a fee as set forth in a separate written agreement between Lessor and said Broker(s).

1.11 **Guarantor(s):** None. (See also Paragraph 37)

1.12 **Lessee Insurance Coverage Minimums:**

(a) **Liability:** \$3,000,000 per occurrence/\$5,000,000 general aggregate

(b) **Property:** Full Replacement Cost

(c) **Umbrella:** \$5,000,000

(d) **Business Interruption:** 12 months

(e) **Automobile Liability:** \$1,000,000

(f) **Workers’ Compensation:** As required by law

(g) **Employer’s Liability:** \$1,000,000

1.13 **Exhibits.** Attached hereto are Exhibits A through H, all of which constitute a part of this Lease.

2. **Premises and Parking.**

2.1 **Letting.** Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the Term, at the Rent (as defined below), and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been used in calculating Base Rent is an approximation which Lessor and Lessee agree is reasonable and any payments based thereon are not subject to revision whether or not the actual square footage is more or less. For purposes of this Lease, the square footage of the Premises shall be deemed to be as set forth in Paragraph 1.2 above. Lessee represents and warrants to Lessor that Lessee has had an opportunity to measure the actual dimensions of the Premises and the Building and agrees to the square footage figures set forth hereinabove for all purposes under this Lease (except in the event of a condemnation or casualty that decreases the size of the Premises and/or Building as more fully provided elsewhere in the Lease).

2.2 **Condition.** Lessee agrees (i) to accept the Premises on the Commencement Date as then being suitable for Lessee’s intended use and in good operating order, condition and repair in its then existing “AS IS” condition, except as otherwise set forth in this Paragraph 2, and (ii) that neither Lessor nor any of Lessor’s agents, representatives or employees has made any representations as to the suitability, fitness or condition of the Premises for the conduct of Lessee’s business or for any other purpose. Lessee does hereby waive and disclaim any objection to, cause of action based upon, or claim that its obligations hereunder should be reduced or limited because of the condition of the Premises or the suitability of same for Lessee’s purposes. Notwithstanding the foregoing, Lessor shall, at Lessor’s sole cost and expense using building standard industrial materials, install warehouse lighting and thirty (30) 35,000 pound capacity mechanical dock levelers in the location shown on Exhibit B to this Lease (collectively, “**Lessor’s Work**”). In addition, Lessor shall deliver the Premises to Lessee clean and free of debris on the

date Lessor tenders possession of the Premises to Lessee (the “**Delivery Date**”), with the existing Building systems, including the plumbing, lighting, utilities, heating, ventilation and air conditioning system and loading doors in the Premises, the slab and the roof (collectively, the “**Systems**”), in good operating condition on the Delivery Date and Lessor warrants that (a) the Systems shall continue to operate in good working order for the period ending on the date six (6) months after the Commencement Date (the “**Building Warranty Period**”), and (b) the warehouse lighting and dock levelers comprising Lessor’s Work (the “**Lessor’s Work Improvements**”) shall continue to operate in good working order for the period ending on the date one (1) year after the Commencement Date (the “**Lessor’s Work Warranty Period**”); except to the extent such failure in the Systems or the Lessor’s Work Improvements to operate in good working order is caused by Lessee’s use or alterations to the Premises or failure to properly maintain the Systems or the Lessor’s Work Improvements to the extent required by this Lease. If a non-compliance with the foregoing exists at any time prior to the expiration of the Building Warranty Period or Lessor’s Work Warranty Period, as applicable, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, commence to rectify same at Lessor’s expense. If Lessee does not give Lessor written notice of a non-compliance on or before the expiration of the Warranty Period, correction of that non-compliance shall be the obligation of the Party responsible under this Lease.

2.3 **Compliance with Covenants, Restrictions and Building Code.** To the actual knowledge of Lessor, any existing improvements on or in the Premises comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Commencement Date. Lessor further warrants to Lessee that Lessor has no actual knowledge, without a duty of inquiry or investigation, of any claim having been made by any governmental agency that a violation or violations of applicable building codes, regulations, or ordinances exist with regard to the Premises as of the Commencement Date. For purposes of the foregoing representation, Lessor’s actual knowledge shall be limited to the actual knowledge, without a duty of inquiry or investigation, of the person executing this Lease on behalf of Lessor. Said warranties shall not apply to any Alterations or Utility Installations (defined in Subparagraph 7.3(a)) made or to be made by Lessee. If the Premises do not comply with said warranties, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee given within six (6) months following the Commencement Date and setting forth with specificity the nature and extent of such non-compliance, take such action, at Lessor’s expense, as may be reasonable or appropriate to rectify the non-compliance. Lessor makes no warranty that the Permitted Use in Paragraph 1.9 is permitted for the Premises under Applicable Laws (as defined in Paragraph 2.4).

Lessee warrants that any improvements (other than those constructed by Lessor or at Lessor’s direction) on or in the Premises, which are constructed or installed by Lessee, shall comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Commencement Date and throughout the Term of this Lease. Said warranty shall specifically apply to any Alterations or Utility Installations made or to be made by Lessee. If the Premises do not comply with said warranty, Lessee shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessor or any governmental authority, take such action, at Lessee’s expense, as may be reasonable or appropriate to rectify the non-compliance.

2.4 **Acceptance of Premises.** Lessee hereby acknowledges: (a) that it has been advised to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical and fire sprinkler systems, security, environmental aspects, seismic and earthquake requirements, and compliance with the Americans With Disabilities Act and applicable zoning, municipal, county, state and federal laws, ordinances and regulations and any covenants or restrictions of record (collectively, “**Applicable Laws**”) and the present and future suitability of the Premises for Lessee’s intended use; (b) that Lessee has made such investigation as it deems necessary with reference to such matters, is satisfied with reference thereto, and assumes all responsibility therefore as the same relate to Lessee’s occupancy of the Premises and/or the terms of this Lease; and (c) that neither Lessor nor any agent nor any employee of Lessor has made any representations, warranty, estimation or promise of any kind or nature whatsoever relating to the physical condition of the Building or the Premises, including, by way of example only, the fitness of the Premises for Lessee’s intended use or the actual dimensions of the Premises of the Building and Lessee expressly warrants and represents that Lessee has relied solely on its own investigation and inspection of the Premises and the Building in its decision to enter into this Lease and let the Premises in an “AS-IS” condition. Pursuant to California Civil Code Section 1938, Lessor is required to inform Lessee whether the Premises has undergone inspection by a Certified Access Specialist (“**CASp**”) to determine whether the Premises meets all applicable construction-related accessibility standards pursuant to Section 55.53 of the California Civil Code. Lessor hereby informs Lessee that the Premises have not been so inspected by a CASp. Lessee hereby acknowledges that the Premises has not undergone inspection by a CASp. As required by Section 1938(e) of the California Civil Code, Lessor hereby states as follows: "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises." In furtherance of the foregoing, Lessor and Lessee hereby agree as follows: (a) any CASp inspection requested by Lessee shall be conducted, at Lessee's sole cost and expense, by a CASp approved in advance by Lessor; and (b) pursuant to this Lease, Lessee,

Initial _____
Initial _____

at its cost, is responsible for making any repairs to the Premises to correct violations of construction-related accessibility standards, in accordance with the terms of this Lease.

2.5 **Intentionally Deleted.**

2.6 **Vehicle Parking.** Lessee shall be entitled to use Parking Spaces in accordance with Subparagraph 1.2 (b) of the Basic Provisions.

3. **Term.**

3.1 **Term.** The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3. After the Commencement Date, upon Lessor's request, Lessee shall promptly execute a "Notice of Lease Term Dates" in the form attached hereto as Exhibit E to this Lease, which shall specify the Commencement Date, the Expiration Date and certain other matters specified therein. If Lessee fails to execute a Notice of Term Dates, such failure shall not affect Lessee's obligation to commence paying rent upon the occurrence of the Commencement Date.

3.2 **Early Possession.** If an Early Possession Date is specified in Paragraph 1.4, Lessee shall be entitled to early occupancy of the Premises solely for the purpose of installing Lessee's furniture, fixtures, equipment and other specialized leasehold improvements approved by Lessor in writing pursuant to this Lease and otherwise preparing the Premises for Lessee's occupancy, but in no event for conducting Lessee's business; provided, however, that Lessee shall not interfere with Lessor's work or activities, if any, in preparing the Premises for Lessee's occupancy. Lessor and Lessee shall coordinate their respective work to be performed at the Premises during Lessee's early occupancy. All other terms of this Lease, however (including, but not limited to, the obligations to pay for all utilities and Operating Expenses and to carry the insurance required by Paragraph 8), shall be in effect during such period. Lessee's early occupancy shall in no way interfere with Lessor's completion of any improvements in the Premises required to be completed by Lessor under this Lease prior to the Commencement Date and Lessee agrees that Lessor's completion of any improvements in the Premises during the period of Lessee's early occupancy of the Premises shall in no way constitute a constructive eviction of Lessee nor entitle Lessee to any abatement of Rent. Furthermore, Lessor shall have no responsibility and shall not be liable to Lessee for, and Lessee hereby waives any claim against Lessor in connection with, (a) any injury or damage to persons or property at the Premises, (b) any interference with Lessee's business, (c) any loss of the use of the whole or any part of the Premises or of Lessee's personal property or improvements, or (d) any inconvenience or annoyance, occasioned by or arising from the completion of any improvements in the Premises performed by Lessor or its agents during Lessee's early occupancy of the Premises. Any such early possession shall not affect nor advance the Expiration Date of the Term.

3.3 **Delay in Possession.** If for any reason Lessor cannot deliver possession of the Premises to Lessee by the Early Possession Date, if one is specified in Paragraph 1.4, or if no Early Possession Date is specified, by the Commencement Date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease, or the obligations of Lessee hereunder, or extend the Term hereof, but in such case, Lessee shall not, except as otherwise provided herein, be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease until Lessor delivers possession of the Premises to Lessee.

3.4 **Option to Extend.** Lessee shall have one (1) option (the "**Option**") to extend the Term for a period of three (3) years (the "**Option Term**"), which Option shall be exercisable by written notice delivered by Lessee to Lessor as provided in this Paragraph 3.4, provided that Lessee has not at any time been in Breach under this Lease. The Option shall be exercisable only by the originally named Lessee under this Lease (the "**Original Lessee**") and only if the Original Lessee is in possession of one hundred percent (100%) of the Premises.

(a) **Exercise of Option.** The Option may be exercised by Lessee, if at all, by delivering written notice (the "**Option Notice**") to Lessor not more than twelve (12) months, nor less than six (6) months, prior to the expiration of the Term, stating that Lessee is exercising the Option. In the event that Lessee fails to exercise the Option by timely written notice, the Option shall lapse and be of no further force or effect. Lessor, after receipt of Lessee's notice, shall deliver notice (the "**Option Rent Notice**") to Lessee within thirty (30) days of Lessor's receipt of the Option Notice setting forth the "Option Rent," as that term is defined in subparagraph (b) below, which shall be applicable to the Lease during the Option Term. On or before the date ten (10) business days after Lessee's receipt of the Option Rent Notice, Lessee may, at its option, object to the Option Rent contained in the Option Rent Notice by delivering written notice thereof to Lessor, in which case the Parties shall follow the procedure, and the Option Rent shall be determined, as set forth in subparagraph (c) below. If Lessee does not so object within such ten (10) business day period, the Option Rent applicable during the Option Term shall be the amount set forth in the Option Rent Notice and the Option Rent Notice shall be binding upon Lessee.

(b) **Option Rent.** The Base Rent payable by Lessee during the Option Term (the "**Option Rent**") shall be equal to ninety-five percent (95%) of the prevailing annual market rental value for comparable space in the market area

Initial _____
Initial _____

in which the Premises are located (including additional rent and considering any "base year" or "expense stop" applicable thereto), including all escalations, at which tenants, as of the commencement of the Option Term, are leasing non-sublease, non-renewal, non-encumbered, non-equity space in comparable buildings for a comparable term.

(c) **Determination of Option Rent.** In the event Lessee timely and appropriately objects to the Option Rent, Lessor and Lessee shall attempt to agree upon the Option Rent using their best good-faith efforts. If Lessor and Lessee fail to reach agreement within ten (10) days following Lessee's objection to the Option Rent (the "**Outside Agreement Date**"), then Lessee may give written notice ("**Appraisal Notice**") to Lessor that Lessee desires to have the Option Rent determined by appraisal pursuant to the procedures set forth in subparagraphs (i) through (iv) below ("**Appraisal Notice**"). If Lessee fails to give the Appraisal Notice on or before the Outside Agreement Date, the Option Rent applicable during the Option Term shall be the amount set forth in the Option Rent Notice.

(i) Within ten (10) days after Lessor's receipt of the Appraisal Notice in accordance with this Section, Lessor and Lessee shall agree upon a list of three (3) independent, unaffiliated real estate brokers with at least five (5) years' full-time experience brokering commercial properties within ten (10) miles of the Premises. Within five (5) days after agreement upon the list of brokers, Lessor and Lessee shall meet and each shall have the right to disqualify one (1) of the brokers until only one (1) broker (the "**Arbitrator**") has not been disqualified by either Lessor or Lessee.

(ii) Within fifteen (15) days after the appointment of the Arbitrator, the Parties shall each submit their determination of the Option Rent to the Arbitrator and the Arbitrator shall independently determine the Option Rent. The Option Rent shall equal the Option Rent submitted by Lessor or Lessee that is closest to the Option Rent determined by the Arbitrator. The Arbitrator shall not divulge to Lessor or Lessee the Option Rent determined by the Arbitrator until both Parties instruct it to do so in writing. The determination of the Arbitrator in accordance with this subsection (c) shall be final and binding on the Parties and a judgment may be rendered thereon in a court of competent jurisdiction.

(iii) If the Parties fail to select the three (3) qualified brokers or the Arbitrator, either Lessor or Lessee by giving ten (10) days' notice to the other Party, can apply to the American Arbitration Association office in the county in which the Premises is located for the selection of the Arbitrator who meets the qualifications stated in this Paragraph.

(iv) The cost of arbitration shall be paid by Lessor and Lessee equally.

During the period requiring the adjustment of monthly Base Rent to Option Rent, Lessee shall pay, as monthly Base Rent pending such determination, one hundred five percent (105%) of the monthly Base Rent in effect for the Premises immediately prior to such adjustment; provided, however, that upon the determination of the Option Rent, Lessee shall pay Lessor the difference between the amount of monthly Base Rent Lessee actually paid and Option Rent immediately upon the determination of the Option Rent. Any amount of Base Rent Lessee has actually paid to Lessor which exceeds the Option Rent determined in accordance herewith shall be credited against Lessee's future Option Rent obligations.

4. **Rent.**

4.1 **Base Rent.** Lessee shall pay Base Rent and other rent or charges (collectively referred to from time to time as "**Rent**"), to Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Rent for any period during the Term hereof which is for less than one (1) full month shall be prorated on the basis of a thirty (30) day month. Payment of Rent shall be made to Lessor at its address stated in, and in accordance with, the Rent Payment Instructions attached as Exhibit H to this Lease or to such other persons or at such other addresses as Lessor may from time to time designate in writing to Lessee. Notwithstanding anything to the contrary contained in this Lease, Lessor and Lessee hereby agree that for the second (2nd) and third (3rd) full calendar months of the Original Term, the monthly Base Rent due hereunder shall be abated; provided, that (i) Lessee is at no time in Default under any of the terms and provisions of this Lease, and (ii) Lessee agrees that notwithstanding the foregoing monthly Base Rent abatement, Lessee shall observe and perform all of the other terms, covenants and provisions set forth in this Lease, including without limitation, payment of all other Rent required to be paid by Lessee under this Lease.

4.2 **Operating Expenses.** Lessee shall pay to Lessor during the Term hereof, in addition to the Base Rent, all Operating Expenses, as hereinafter defined, during each calendar year of the Term of this Lease, in accordance with the following provisions:

(a) **“Operating Expenses”** are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Premises, including the following:

(i) The costs of management, administration and operation of the Premises, including, without limitation,
(A) a property management fee, accounting, salaries and benefits for employees, and legal and accounting costs;

(B) any fees or charges under any covenants, conditions and restrictions or reciprocal easement agreements recorded against the Premises and all fees, licenses and permits related to the ownership, operation and management of the Premises;

(C) the actual and reasonable cost or repairs and replacements to the exterior areas of the Premises, including the parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, storm water systems, lighting facilities, fences and gates, and the roof, and painting of the exterior of the building; and

(D) the cost of any maintenance contracts maintained by Lessor pursuant to Paragraph 7.2 of this Lease.

(ii) The cost of water systems serving the Premises, except to the extent paid directly by Lessee pursuant to Paragraph 11.

(iii) Property management and security services (including security alarm systems and telephone lines), fire/lifesafety systems, including fire alarm and/or smoke detection, and the costs of any environmental inspections.

(iv) Real Property Taxes (as defined in Paragraph 10.2) to be paid by Lessor under Paragraph 10 hereof.

(v) The costs of the premiums for the insurance policies maintained by Lessor under Paragraph 8 hereof.

(vi) Any deductible portion of an insured loss concerning the Premises.

(vii) Replacing and/or adding improvements mandated by any governmental agency and any repairs or removals necessitated thereby amortized over its useful life according to sound accounting principles (including interest on the un-amortized balance at eight percent per annum).

(viii) The cost of any capital improvements made to the Premises, amortized over its useful life according to sound accounting principles (including interest on the un-amortized balance at eight percent per annum).

Notwithstanding the foregoing, Operating Expense shall not include costs incurred in connection with upgrading the Building to comply with Applicable Laws in effect and being enforced prior to the Commencement Date, except to the extent such obligations are triggered by Lessee’s specific use of the Premises or Alterations or improvements in the Premises performed or requested by Lessee; provided, however, that a change in the procedures for enforcing an existing law will be the equivalent of a new law.

(b) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2 (a) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Premises already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(c) Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor’s option, however, an amount may be estimated by

Lessor from time to time of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each 12-month period of the Term, on the same day as the Base Rent is due hereunder. Lessor shall deliver to Lessee, within one hundred and twenty (120) days after the expiration of each calendar year, a reasonably detailed statement showing the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this Subparagraph 4.2 (c) during said preceding year exceed the annual Operating Expenses as indicated on said statement, Lessor shall credit the amount of such over-payment against Operating Expenses next becoming due. If Lessee's payments under this Subparagraph 4.2 (c) during said preceding year were less than the actual Operating Expenses as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

(d) After delivery to Lessor of at least thirty (30) days prior written notice, Lessee, at its sole cost and expense through any accountant designated by it, shall have the right to examine and/or audit the books and records evidencing such expenses for the previous one (1) calendar year, during Lessor's reasonable business hours but not more frequently than once during any calendar year. Lessee may not compensate any such accountant on a contingency fee basis. The results of any such audit (and any negotiations between the Parties related thereto) shall be maintained strictly confidential by Lessee and its accounting firm and shall not be disclosed, published or otherwise disseminated to any other party other than to Lessor and its authorized agents or the Lessee's employees, accountants, real estate advisors, financial advisors and attorneys and as may be required by law or in any litigation or dispute arising out of such audit. Lessor and Lessee each shall use its commercially reasonable efforts to cooperate in such negotiations and to promptly resolve any discrepancies between Lessor and Lessee in the accounting of such expenses.

5. **Security Deposit.**

5.1 **Security Deposit.** Lessee shall deposit with Lessor upon Lessee's execution hereof the Security Deposit set forth in Paragraph 1.8 of the Basic Provisions as security for Lessee's faithful performance of Lessee's obligations under this Lease. If Lessee fails to pay Base Rent or other Rent or charges due hereunder before or after the termination or expiration of this Lease, or otherwise Defaults under this Lease (as defined in Paragraph 13.1), Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys fees and costs) which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Lessor shall, at the expiration or earlier termination of the Term hereof and after Lessee has vacated the Premises, return to Lessee (or, at Lessor's option, to the last approved assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. Unless otherwise expressly agreed in writing by Lessor, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any monies to be paid by Lessee under this Lease. Lessee hereby waives (i) any and all rights under California Civil Code Section 1950.7, as amended or recodified from time to time, and any and all other laws, rules and regulations, now or hereafter in force, applicable to security deposits in the commercial context ("**Security Deposit Laws**"), and (ii) any and all rights, duties and obligations either Party may now or, in the future, will have relating to or arising from the Security Deposit Laws. Notwithstanding anything to the contrary contained herein, the Security Deposit may be retained and applied by Lessor (a) to offset Rent (as defined in Section 4.1) which is unpaid either before or after the termination of this Lease, and (b) against other damages suffered by Lessor before or after the termination of this Lease, whether foreseeable or unforeseeable, caused by the act or omission of Lessee or any officer, employee, agent, contractor or invitee of Lessee. If Lessee performs all of Lessee's obligations hereunder, the Security Deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the Term hereof, and after Lessee has vacated the Premises.

6. **Use.**

6.1 **Use.** Lessee shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.9 of the Basic Provisions and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to the Premises or neighboring premises or properties. Lessee further covenants and agrees that it shall not use, or suffer or permit any person or persons to use, the Premises in violation of the laws of the United States of America, the State of California, or the ordinances, regulations or requirements of the local municipal or county governing body or other lawful authorities having jurisdiction over the Premises. Lessee shall comply with all recorded covenants, conditions, and restrictions, and the provisions of all ground or underlying leases, now or hereafter affecting the Premises. Lessee shall not use or allow another person or entity to use any part of the Premises for the storage, use, treatment, manufacture or sale of "Hazardous Substances," as that term is defined in Subparagraph 6.2 (a) of this Lease. Lessor acknowledges, however, that Lessee will maintain products in the Premises which are incidental to the operation of its offices, such as photocopy supplies, secretarial supplies and limited janitorial supplies, which products contain chemicals which are categorized as Hazardous Substances. Lessor agrees that the use of such products in the

Premises in compliance with Applicable Requirements and in the manner in which such products are designed to be used shall not be a violation by Lessee of this Paragraph 6.1.

6.2 **Hazardous Substances.**

(a) **Reportable Uses Require Consent.** The term “**Hazardous Substance**” as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, PCBs, crude oil or any products or by-products thereof. Lessee shall not engage in any activity in or about the Premises, which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Lessor and compliance in a timely manner (at Lessee’s sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). “**Reportable Use**” shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and (iii) the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Requirements require that a notice be given to persons entering or occupying the Premises or neighboring properties.

(b) **Duty to Inform Lessor.** If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give Lessor written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to, such Hazardous Substance including but not limited to all such documents as may be involved in any Reportable Use involving the Premises. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

(c) **Indemnification of Lessor.** Lessee shall indemnify, protect, defend and hold Lessor (with counsel approved by Lessor), its directors, officers, agents, partners, members, managers, employees, lenders and ground lessor, if any, and their respective successors and assigns (collectively, “**Lessor Parties**”) and the Premises, harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys’ and consultants’ fees and costs (collectively, “**Claims**”) arising out of or involving any (i) Hazardous Substance brought, released or used or allowed to be brought, released or used on the Premises by Lessee or by anyone under Lessee’s control, or (ii) the breach of any term, condition, representation or warranty contained in this Paragraph 6. Lessee’s obligations under this Subparagraph 6.2 (c) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultants’ and attorneys’ fees and costs and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement. The provisions of this Paragraph 6.2(c) shall survive the expiration or earlier termination of this Lease.

(d) **Environmental Questionnaire Disclosure.** Prior to the execution of this Lease, Lessee shall complete, execute and deliver to Lessor a Hazardous Substances Survey Form in the form of Exhibit F attached hereto (“**Survey Form**”), and Lessee shall certify to Lessor that all information contained in the Survey Form is true and correct. The completed Survey Form shall be deemed incorporated into this Lease for all purposes, and Lessor shall be entitled to rely on the information contained therein. Within ten (10) days following receipt by Lessee of a written request therefore from Lessor, Lessee shall disclose to Lessor in writing the names and amounts of all Hazardous Substances, or any combination thereof, which were stored, generated, used or disposed of on, under or about the Premises for the twelve (12) month period prior to and after each such request, or which Lessee intends to store, generate, use or dispose of on, under or about the Premises. At Lessor’s option, Lessee’s disclosure obligation under this Subparagraph shall include the requirement that Lessee update, execute and deliver to Lessor the Survey Form, as the same may be modified by Lessor from time to time.

(e) **Pre-Existing Conditions; Indemnification of Lessee.** Notwithstanding anything in this Lease to the contrary, Lessee shall not be responsible for any Hazardous Substances existing on the Premises as of the date possession of the Premises is delivered to Lessee. Lessor shall indemnify, protect, defend and hold Lessee, its directors, officers, members, agents and employees harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys’ and consultants’ fees arising out of or involving any Hazardous Substance brought onto the Premises by Lessor.

6.3 **Lessee's Compliance with Requirements.** Lessee shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "**Applicable Requirements**," which term is used in this Lease to mean all laws (including, without limitation, the Americans with Disabilities Act), rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including air quality, soil and groundwater conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Requirements.

6.4 **Inspection; Compliance with Law.** Lessor, Lessor's agents, employees, contractors and designated representatives, and the holders of any mortgages, deeds of trust or ground leases on the Premises ("**Lenders**") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times upon reasonable prior notice, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Requirements, and Lessor shall be entitled to employ experts and/or consultants in connection therewith to advise Lessor with respect to Lessee's activities, including but not limited to Lessee's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The costs and expenses of any such inspections shall be paid by the Party requesting same, unless a Default or Breach of this Lease by Lessee or a violation of Applicable Requirements or a contamination, caused or materially contributed to by Lessee, is found to exist or to be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination. In such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

7. **Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations.**

7.1 **Lessee's Obligations.**

(a) Subject to the provisions of Paragraphs 9 (Damage or Destruction) and 14 (Condemnation), Lessee shall, at Lessee's sole cost and expense and at all times, keep the Premises, Utility Installations and Alterations and every part thereof in good order, condition and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities, such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connections if within the Premises, fixtures, interior walls, foundations, ceilings, roof drainage systems, floors, windows, doors, dock equipment, gates, plate glass, and skylights located in, on, or adjacent to the Premises. Lessee shall keep the Premises clean at all times and contract directly for trash removal from the Premises and all utility services, including electricity, telephone, security, gas and water. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by this Paragraph 7.1. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. If an item cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such item, then such item shall be replaced by Lessee at Lessee's sole cost and expense. Lessee shall, during the term of this Lease, keep the exterior appearance of the Premises in a first-class condition (including, e.g. graffiti removal) consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Premises.

(b) Lessee shall, at Lessee's sole cost and expense, procure and maintain a contract, with copies to Lessor, in customary form and substance for and with a contractor specializing and experienced in the inspection, maintenance and service of the heating, air conditioning and ventilation system for the Premises. Such HVAC contract shall provide for the maintenance of the HVAC system not less than quarterly and replacement of the air filters not less than monthly. All such contractors shall be subject to Lessor's prior approval, which approval shall not be unreasonably withheld. Lessee shall make all repairs and replacements recommended by such contractors at Lessee's sole cost and expense. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts, and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be

required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, in accordance with Paragraph 13.2 below.

7.2 **Lessor's Obligations.** Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 4.2 (Operating Expenses), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, shall keep in good order, condition and repair the roof, foundations, floor slabs, exterior walls, the structural condition of interior bearing walls of the Premises, and the exterior areas of the Premises (i.e., landscaping, parking areas, sidewalks and driveways). Lessor shall procure and maintain a contract in customary form and substance for and with a contractor specializing and experienced in the inspection, maintenance and service of the following equipment and improvements, if any, if and when installed in or at the Premises: (i) fire extinguishing systems, including fire alarm and/or smoke detection, (ii) landscaping and irrigation systems, and (iii) roof covering and drains. The cost of the aforementioned maintenance contracts shall be added to Operating Expenses and reimbursed by Lessee pursuant to Paragraph 4.2. Except as provided above, it is intended by the Parties hereto that Lessor have no obligation to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of Lessee. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 **Utility Installations, Trade Fixtures, Alterations.**

(a) **Definitions; Consent Required.** The term "**Utility Installations**" is used in this Lease to refer to all air lines, power panels, electrical distribution, security, fire protection systems, communications systems, lighting fixtures, heating, ventilating and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "**Trade Fixtures**" shall mean Lessee's machinery and equipment, which can be removed, provided that Lessee repairs any damage to the Premises caused by such removal. The term "**Alterations**" shall mean any modification of the improvements on the Premises, which are provided by Lessee under the terms of this Lease, other than Utility Installations or Trade Fixtures. "**Lessee-Owned Alterations and/or Utility Installations**" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Subparagraph 7.4 (a). Lessee shall not make nor cause to be made any Alterations or Utility Installations in, on, under or about the Premises without Lessor's prior written consent.

(b) **Consent.** Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. All consents given by Lessor, whether by virtue of Subparagraph 7.3 (a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities; (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Lessor prior to commencement of the work thereon; and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. In connection with approving any Alterations or Utility Installations, Lessor shall have the right to approve Lessee's contractor(s). Any Alterations or Utility Installations by Lessee during the Term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Requirements. Lessor's approval of the plans, specifications and working drawings for Lessee's Alterations or Utility Installations shall create no responsibility or liability on the part of Lessor for their completeness, design sufficiency, or compliance with all laws, rules and regulations of governmental agencies or authorities. All work with respect to any Alterations or Utility Installations must be done in a good and workmanlike manner and diligently prosecuted to completion to the end that the Premises shall at all times be a complete unit except during the period of work. In the event that Lessee makes any Alterations or Utility Installations, Lessee agrees to carry "Builder's All Risk" insurance in an amount approved by Lessor covering the construction of such Alterations or Utility Installations, and such other insurance as Lessor may require, it being understood and agreed that all of such Alterations or Utility Installations shall be insured by Lessee pursuant to Article 8 of this Lease immediately upon completion thereof. Upon completion of any Alterations or Utility Installations, Lessee agrees to cause a Notice of Completion to be recorded in the office of the Recorder of the county in which the Premises are located in accordance with Applicable Laws, and Lessee shall deliver to Lessor a reproducible copy of the "as built" drawings, and specifications therefor of the Alterations or Utility Installations. Lessor may (but without obligation to do so) condition its consent to any requested Alteration or Utility Installation that costs Fifty Thousand and No/100 Dollars (\$50,000.00) or more upon Lessee's providing Lessor with such assurances, including without limitation, establishing an escrow account, as Lessor shall require to assure payment of the costs thereof to protect Lessor and the Premises from and against any mechanic's, materialmen's or other liens. Lessee shall keep the Premises lien free. Lessee shall pay to Lessor all of Lessor's actual costs incurred in conjunction with the review of Lessee's proposed Alterations or Utility Installations within fifteen (15) days of Lessee's receipt of an invoice therefor.

(c) **Lien Protection.** Lessee shall pay when due all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on, or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises and to record the same, as provided by law. If Lessee shall, in good faith, contest the validity

Initial _____
Initial _____

of any such lien, claim or demand, then Lessee shall, at its sole expense, defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to one and one-half times the amount of such contested lien claim or demand pursuant to Applicable Laws, indemnifying Lessor against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys' fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

7.4 Ownership, Removal, Surrender, and Restoration.

(a) **Ownership.** Subject to Lessor's right to require their removal and to cause Lessee to become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Installations made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises. Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee-Owned Alterations and Utility Installation. Unless otherwise instructed per Subparagraph 7.4 (b) hereof, all Lessee-Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, automatically and without further action on the part of Lessor, become the property of Lessor and remain upon the Premises and be surrendered with the Premises by Lessee.

(b) **Removal.** Unless otherwise agreed in writing at the time of giving its consent, Lessor may require that any or all Lessee-Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding that Lessor may have consented to their installation. Lessor may require the removal at any time of all or any part of any Alterations or Utility Installations made without the required consent of Lessor.

(c) **Surrender/Restoration.** Lessee shall surrender the Premises by the end of the last day of the Term or any earlier termination date, clean and free of debris, with all Hazardous Materials removed from the Premises, and in good operating order, condition and state of repair (including, but not limited to: all plumbing in working order with sinks and toilets cleaned; all lights, ballasts, and lenses are operational; overhead doors are serviced and repaired; anything mounted on a door, window or wall removed (including names on office doors, white boards and any cohesive residue from such items), ordinary wear and tear and damage by casualty excepted; all electronic, fiber, phone and data cabling and related equipment that has been installed by or for the exclusive benefit of Lessee in or around the Premises removed (unless Lessor notifies Lessee in writing that it may remain in place); missing or damaged dock bumpers, levelers, seals, locks, and lights are repaired or replaced; any damaged sheetrock is repaired; floors are clean and free of paint, glue and chips; all racking bolts and other protrusions are removed from the floor and patched with epoxy; and all floor cracks ¼ inch wide or larger are filled with epoxy; and exterior signage is removed and the fascia is repaired and repainted) as more particularly described in the Move Out Standards attached as Exhibit G to this Lease and shall provide Lessor with keys for all interior doors. Except as otherwise agreed or specified herein, the Premises, as surrendered, shall include the Alterations and Utility Installations. The obligations of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Lessee-Owned Alterations and Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any air quality, soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Requirements and/or good practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises pursuant to this Lease. Notwithstanding anything to the contrary contained herein, on or before the Expiration Date or any earlier termination of this Lease, Lessee shall, at Lessee's sole cost and expense and in compliance with the National Electric Code and other applicable laws, remove all electronic, fiber, phone and data cabling and related equipment that has been installed by or for the exclusive benefit of Lessee in or around the Premises (collectively, the "Cabling"); provided, however, Lessee shall not remove the Cabling if Lessee receives a written notice from Lessor at least fifteen (15) days prior to the expiration or earlier termination of this Lease authorizing all or any portion of the Cabling to remain in place, in which event the Cabling or portion thereof authorized by Lessor remain at the Premises shall be surrendered with the Premises upon expiration or earlier termination of this Lease.

8. Insurance; Indemnity.

8.1 **Lessor's Insurance.** Lessor shall maintain "causes of loss - special form" property insurance covering the Premises against loss or damage resulting from fire and other insurable loss. Such insurance shall be on a 100% replacement cost basis. As reasonably determined by Lessor and subject to Lessee's reimbursement of such costs in accordance with the terms of this Paragraph 8.1, Lessor shall also carry earthquake, terrorism, windstorm and/or other insurance covering the Premises at commercially reasonable rates. Lessor shall have the right to obtain flood insurance if the Premises is located within a 100-Year Flood Plain or in an identified "flood prone area" as classified by the U.S. Department of Housing and Urban Development or if required by any lender holding a security interest in the Premises. Lessor shall not obtain insurance for Lessee's fixtures or equipment or other building improvements installed by Lessee on the Premises, including Trade Fixtures and Lessee-Owned Alterations and/or Utility Installations. During the Term, Lessor shall also maintain a rental income insurance policy, with loss payable to Lessor, in an amount not to exceed eighteen (18) months of Base Rent, plus estimated real property taxes and

insurance premiums. Lessee shall be liable for the payment of any commercially reasonable deductible amount under Lessor's insurance policies maintained pursuant to this Paragraph 8.1 and any commercially reasonable self-insured retention amount. Lessee shall not do or permit anything to be done which invalidates any such insurance policies. Lessee shall pay all premiums for the insurance policies described in this Paragraph 8.1 within fifteen (15) days after Lessee's receipt of a copy of the premium statement or other evidence of the amount due except Lessor shall pay all premiums for non-primary comprehensive public liability insurance which Lessor elects to obtain. Alternatively, at Lessor's election, Lessor shall estimate the insurance premiums required to be paid by Lessee under this Paragraph 8.1 and require that such premiums be paid to Lessor by Lessee monthly in advance as part of Operating Expenses in accordance with Paragraph 4.1 above. Such monthly payments shall be an amount equal to the amount of the estimated annual insurance premiums divided by the number of months remaining before the month in which said premiums become delinquent. When the actual amount of the insurance premiums are known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the insurance premiums. If the amount collected by Lessor is insufficient to pay such insurance premiums when due, Lessee shall pay Lessor, upon 10 business days written notice thereof, such additional sum as is necessary. If the Term expires before the expiration of an insurance policy maintained by Lessor, Lessee shall be liable for Lessee's prorated share of the insurance premiums.

8.2 Lessee's Insurance. At all times during the Term of this Lease, Lessee will purchase and maintain, at Lessee's sole expense, the following insurance, in amounts not less than those specified below or such other amounts as Lessor may from time to time reasonably request, with insurance companies and on forms satisfactory to Lessor.

(a) Commercial General Liability Insurance written on an I.S.O. "occurrence" form or its equivalent covering the use, occupancy and maintenance of the Premises and all operations of Lessee. Such coverage shall include a limit of \$2,000,000 per occurrence for Bodily Injury and Property Damage, \$5,000,000 General Aggregate, \$2,000,000 Products/Completed Operations aggregate, \$1,000,000 limit for Personal & Advertising Injury and \$1,000,000 Fire Damage Legal Liability limit. The policy shall also contain an endorsement amending the "Other Insurance" clause as follows: "The insurance afforded to Additional Insureds under this policy is primary insurance and the insurer will not seek contribution from other insurance available to the Additional Insureds." The policy shall provide defense expense in addition to the limit of liability stated in the policy.

(b) Umbrella or Excess Liability Insurance to be excess over the Commercial General Liability, Automobile Liability and Employers' Liability Insurance. The Umbrella Liability policy shall be written on an "occurrence" form with a limit of liability of Five Million Dollars (\$5,000,000.00) and a Self-Insured Retention no greater than Twenty Five Thousand Dollars (\$25,000.00).

(c) Commercial Property Insurance covering all Lessee's furniture, fixtures, machinery, equipment, stock and any other personal property owned and/or used in Lessee's business and all leasehold improvements, whether made or acquired at the Lessee's expense or Lessor's expense, plate glass that is part of the Premises and any other property in the Premises that Lessee is responsible for repairing or replacing under this Lease, in an amount equal to their full replacement cost without deduction for depreciation. At a minimum, such policy shall insure against destruction or damage by fire and other perils covered on an ISO Causes of Loss - Special Form including wind and hurricane. Such policy shall further provide Replacement Cost Coverage. Such policy shall not contain a per occurrence deductible greater than Twenty Five Thousand Dollars (\$25,000.00). Further, the policy shall contain a provision specifically naming Lessor as loss payee for property which Lessor has an insurable interest (i.e., leasehold improvements).

(d) Business Income and/or Extra Expense Insurance in an amount sufficient to insure payment of Rent and all other expenses to be borne by Lessee under this Lease, for a period of not less than Twelve (12) months, during any interruption of Lessee's business by reason of the Premises or personal property being damaged by fire or other perils covered on an ISO Causes of Loss - Special Form or its equivalent. Lessee acknowledges that it assumes all risks of loss due to interruption of Lessee's business by any cause.

(e) Automobile Liability Insurance to include coverage for any owned, non-owned or hired automobiles entering and exiting from the Premises and automobile contractual liability with limits of: \$1,000,000 per occurrence and Basic No-Fault coverage as required by law or regulation if any, in the State in which the Premises is located.

(f) Workers' Compensation coverage shall be carried as required by law in the State in which the employees are hired and to further include: Voluntary Compensation Coverage and Other States' Coverage, if applicable, with statutory limits for Workers' Compensation and limits for Employers' Liability of: \$1,000,000 Each Accident; \$1,000,000 Disease - Policy Limit; and \$1,000,000 Disease - Each Employee. The policy shall further contain an endorsement providing a waiver of subrogation in favor of the Additional Insured Parties.

(g) If required by Lessor because of special environmental concerns regarding the Lessee's operations, Pollution Legal Liability Insurance and/or Environmental Impairment Insurance covering claims for damage or injury caused by

hazardous materials, including, without limitation, bodily injury, wrongful death, property damage, including loss of use, removal, cleanup and restoration of work and materials necessary to return the premises and any other property of whatever nature located on the Premises to their condition existing prior to the appearance of Lessee's hazardous materials on the Premises. The policy shall contain a provision specifically naming Lessor and Lessor's officers and employees as additional insureds.

8.3 **General Requirements.**

(a) Certificates of Insurance evidencing all such insurance and acceptable to Lessor shall be filed with Lessor prior to occupancy of the Premises and at least five (5) days prior to the expiration of the term of each policy thereafter. Such Certificates of Insurance must specifically show all of the special policy conditions required in this Article including "additional insured", "waiver of subrogation", "notice of cancellation", and "primary insurance" wording applicable to each policy. Alternatively, a certified, true and complete copy of each properly endorsed policy may be submitted. All coverage shall be written by an admitted insurer in the State in which the Premises is located with a current Best Rating of A-VIII or better.

(b) All coverage shall be written by an admitted insurer in the State in which the Premises is located with a current Best Rating of A-X or better.

(c) Intentionally deleted.

(d) Intentionally deleted.

(e) Lessee shall not settle any claim or accept any proceeds in satisfaction of any claim involving damage to the Premises or liability of Lessor without Lessor's express prior written consent.

(f) Lessee may maintain the insurance required under this Paragraph under blanket or umbrella policies, as applicable, issued to Lessee covering other properties owned or leased by Lessee; provided that the policies otherwise comply with this Paragraph and allocate to the Premises the coverage specified by this Paragraph, without possibility of reduction or coinsurance penalty by reason of, or damage to, any other properties named therein, and if the insurance required by this Paragraph shall be effected by any such blanket or umbrella policies, Lessee shall furnish to Lessor certificates of insurance or certified copies of policies with schedules thereto attached showing the amount of insurance afforded by such policies to the Premises.

(g) Lessor at its option may obtain any of the required insurance directly or through blanket or umbrella policies covering the Premises and other assets owned by Lessor; provided that the policies otherwise comply with this Paragraph and allocate to the Premises the coverage specified by this Paragraph, without possibility of reduction or coinsurance penalty by reason of, or damage to, any other properties named therein.

8.4 **Adequacy of Coverage.** Lessor, its agents and employees, make no representation that the limits of liability specified to be carried by Lessee pursuant to this Paragraph are adequate to protect Lessee. If Lessee believes that any of such insurance coverage is inadequate, Lessee will obtain such additional insurance coverage as Lessee deems adequate, at Lessee's sole expense.

8.5 **Additional Insureds.** Lessee shall add as additional insureds to the insurance policies required by this Paragraph such other persons as Lessor may from time to time reasonably require.

8.6 **Waiver of Subrogation.** Lessor and Lessee each hereby waives, on their behalf and on behalf of their respective insurance carriers, any claim which either Party might otherwise have against the other Party, arising out of loss or damage, including consequential loss or damage, to any property of such Party from any risk required to be insured against hereunder. Lessor and Lessee shall each indemnify the other against any loss or expense, including reasonable attorneys' fees, resulting from the failure of either Party, respectively, to obtain the waivers required by this Paragraph 8.6.

8.7 **Indemnity.** Except to the extent caused by Lessor's gross negligence, willful misconduct and/or breach of express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, employees, officers, independent contractors, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, loss of permits, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the occupancy of the Premises by Lessee, the conduct of Lessee's business, any act, omission or neglect of Lessee, its agents, contractors, employees or invitees, and out of any Default or Breach by Lessee in the performance in a timely manner of any obligation on Lessee's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein,

and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment. In case any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee, upon notice from Lessor, shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified. In no event shall the foregoing indemnity apply to any injury or damage to persons or property that is proximately caused the sole negligence of Lessor. Lessor agrees to indemnify, defend, and hold Lessee harmless from all claims and all costs, including reasonable attorneys' fees, expenses and liabilities, except to the extent caused by Lessee's negligence or intentional misconduct or Lessee's default of its obligations under this Lease, arising or resulting from the gross negligence or intentional misconduct of the Lessor or Lessor's breach of its obligations under this Lease; provided however that Lessor's agreement to indemnify Lessee shall be ineffective to the extent the matters for which Lessor agreed to indemnify Lessee are covered by insurance carried by Lessee or, if not carried, would have been covered by insurance required to be carried by Lessee pursuant to this Lease. The indemnification obligations of Lessee and Lessor under this Lease shall survive the expiration or earlier termination of this Lease.

8.8 **Exemption of Lessor from Liability.** Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said injury or damage results from conditions arising upon the Premises, from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not. Notwithstanding anything to the contrary contained in this Lease, in no event shall Lessor be liable under any circumstances for any consequential damages, including, without limitation, injury to the Lessee's business or for any loss of income or profit therefrom.

8.9 **Failure to Provide Insurance.** Following Lessor's delivery of prior written notice to Lessee, Lessor shall have the right and option, but not the obligation, to maintain any or all of the insurance which is required in this Paragraph 8 to be provided by Lessee if Lessee fails to maintain the insurance required of Lessee in this Paragraph 8. All costs of Lessee's insurance provided by the Lessor shall be obtained at Lessee's expense.

9. **Damage or Destruction.**

9.1 **Definitions.**

(a) **"Premises Partial Damage"** shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, which can reasonably be repaired in 365 days or less from the damage or destruction. Lessor shall notify Lessee in writing within sixty (60) days after the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) **"Premises Total Destruction"** shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, which cannot be reasonably repaired in 365 days or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within sixty (60) days after the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) **"Insured Loss"** shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event actually covered by insurance carried by the Parties or required to be covered by the insurance described in Paragraph 8 irrespective of any deductible amounts or coverage limits involved, and where adequate insurance proceeds are available to Lessor for the reconstruction of the Premises.

(d) **"Replacement Cost"** shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

9.2 **Premises Partial Damage - Insured Loss.** If Premises Partial Damage occurs, and such damage or destruction is an Insured Loss, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee-Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3 rather than this Paragraph 9.2, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 **Partial Damage - Uninsured Loss.** If Premises Partial Damage occurs and such damage or destruction is not an Insured Loss, then unless such damage or destruction was caused by a negligent or willful act of Lessee, its agents, contractors or employees (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full

force and effect), Lessor may at Lessor's option, either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within sixty (60) days after receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice.

9.4 **Total Destruction.** Notwithstanding any other provision hereof, if Premises Total Destruction occurs (including any destruction required by any authorized public authority), then either Party may elect to terminate this Lease by giving thirty (30) days written notice to the other within sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee.

9.5 **Damage Near End of Term.** If at any time during the last six (6) months of the Term of this Lease there is a casualty damage or destruction for which the cost to repair exceeds two (2) months' Base Rent, whether or not an Insured Loss, Lessor may, at Lessor's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage. Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by exercising such option on or before the earlier of (i) the date which is ten (10) days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period, Lessor shall, at Lessor's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option, then this Lease shall terminate as of the date set forth in the first sentence of this Paragraph 9.5.

9.6 **Abatement of Rent; Lessee's Remedies.**

(a) In the event of Premises Partial Damage, the Base Rent and other charges, if any, payable by Lessee hereunder for the period during which such damage or condition, its repair, remediation or restoration continues, shall be abated in proportion to the degree to which, in Lessor's good faith reasonable business judgment, Lessee's use of the Premises is impaired, but not in excess of proceeds from insurance required to be carried under Subparagraph 8.2 (e). Except for abatement of Base Rent and other charges, if any, as aforesaid, all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair, remediation or restoration.

(b) If Lessor is obligated to repair or restore the Premises under the provisions of this Paragraph 9 and does not commence the repair or restoration of the Premises within one hundred eighty (180) days after either (i) such obligation shall accrue, or (ii) receipt of all applicable insurance proceeds, whichever time period is greater, then Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or restoration is not commenced within sixty (60) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a Lender commences the repair or restoration of the Premises within sixty (60) days after the receipt of such notice, this Lease shall continue in full force and effect. "Commence" as used in this Paragraph 9.6 shall mean either the authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever occurs first.

9.7 **Intentionally Omitted.**

9.8 **Termination - Advance Payments.** Upon termination of this Lease pursuant to this Paragraph 9, Lessor shall return to Lessee any advance payment made by Lessee to Lessor as has not been or is not then required to be, used by Lessor under the terms of this Lease.

9.9 **Waiver of Statutes.** Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent it is inconsistent herewith.

10. **Real Property Taxes.**

10.1 **Payment of Taxes.** In addition to Base Rent, Lessee shall pay to Lessor all Real Property Taxes relating to the term of this Lease. Lessor shall estimate the current Real Property Taxes and require that such taxes be paid to Lessor by Lessee monthly in advance as part of Operating Expenses in accordance with Paragraph 4.2 above.

10.2 **Real Property Tax Definition.** As used herein, the term "Real Property Taxes" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement

bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the Premises by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage, or other improvement district thereof, including any taxes or assessments levied by a Community Facilities District, levied against any legal or equitable interest of Lessor in the Premises or any portion thereof, Lessor's right to rent or other income therefrom, and/or Lessor's business of leasing the Premises, in addition to any such tax imposed on the Base Rent, a sum equal to the aggregate of any city, county or state sales, use or transaction privilege taxes levied or imposed against or on account of any other Rent or otherwise any amounts paid, or costs incurred by Lessee or on behalf of Lessee hereunder, or the receipt or benefit thereof by Lessor. The term "**Real Property Taxes**" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in Applicable Law taking effect, during the Term of this Lease, including but not limited to a change in the ownership of the Premises or in the improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days, which such calendar year and tax year have in common. Each year, at Lessor's election, Lessor may protest real property assessments. In the event Lessor elects to protest a real property tax assessment, Lessor may utilize the services of a tax consultant to protest the real property tax assessment. If as a result of the protest, the Real Property Taxes are lowered, and a tax consultant has been utilized in connection with the protest, Lessee agrees to pay, as additional rent during the Term, all fees payable to tax consultants in the manner set forth in this Lease, as long as there is a net benefit to Lessee from such lowering of Real Property Taxes. Lessee may request in writing that Lessor contest any Real Property Taxes payable (or reimbursable) by Lessee hereunder levied against all or any portion of the Premises. Upon receipt of such request from Lessee, Lessor shall either (i) promptly engage in such contest, in good faith and diligently, employing a consultant for such contest, in which event Lessee hereby agrees to cooperate with Lessor in such contest, or (ii) promptly notify Lessee that Lessor does not elect to engage in such contest. If Lessor fails to commence such contest and diligently pursue such contest to completion or notify Lessee that it elects not to engage in any such contest within thirty (30) days following Lessee's request to Lessor to do so, then Lessee shall have the right to contest in good faith the amount or validity of any such Real Property Taxes, by appropriate administrative and legal proceedings, either in its own name, Lessor's name or jointly with Lessor, and Lessor shall promptly execute and deliver to Lessee whatever document may be reasonably necessary to permit the Lessee to so contest any such Real Property Taxes.

10.3 **Additional Improvements.** Notwithstanding Paragraph 10.1 hereof, Lessee shall, however, pay to Lessor at the time Real Property Taxes are paid under this Lease, the entirety of any increase in Real Property Taxes by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

10.4 **Joint Assessment.** If the Premises is not separately assessed, Real Property Taxes allocated to the Premises shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 **Lessee's Property Taxes.** Lessee shall pay, prior to delinquency, all taxes assessed against and levied upon Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises or stored within the Premises. When possible, Lessee shall cause its Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within fifteen (15) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. **Utilities.** Lessee shall pay directly for all utilities and services supplied to the Premises, including but not limited to electricity, telephone, security, gas, water, trash removal and cleaning of the Premises, together with any taxes thereon. There shall be no abatement of rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service. Upon Lessor's request, Lessee shall deliver to Lessor copies of all bills for separately metered utilities supplied to the Premises for the past twelve (12) month period within thirty (30) days of Lessor's request. Lessee shall provide all necessary authorizations for Lessor to obtain any bills relating to utility usage at the Premises directly from the utility provider. At Lessor's option, Lessor may maintain a telephone line or lines in Lessor's name for a security alarm system and/or fire-life/safety system for the Premises, the cost of which shall be reimbursed by Lessee within ten (10) days of demand or estimated monthly and paid as part of Operating Expenses under Paragraph 8.1.

12. **Assignment and Subletting.**

12.1 Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively, "assign" or "assignment") or sublet all or any part of Lessee's interest or obligations in this Lease or in the Premises without Lessor's prior written consent given under and subject to the terms of Paragraph 36, which Lessor shall not withhold, delay or condition unreasonably. The Parties agree, however, that the manner of operation of the Premises and conduct of business thereon by Lessee will have an impact on the quality and reputation of the Premises. Accordingly, the Parties agree that in approving or disapproving of any proposed assignment or subletting of the Premises or the Lease, Lessor shall be entitled to take into consideration, by way of example and not limitation, any or all of the criteria set forth below and that it shall not be unreasonable for Lessor to withhold its consent if any of the following circumstances exist or may exist: (i) the transferee's contemplated use of the Premises following the proposed assignment or subletting is different from the permitted use specified herein; (ii) in Lessor's reasonable business judgment, the transferee lacks sufficient business reputation or experience to operate a successful business of the type and quality permitted under the Lease; (iii) in Lessor's reasonable business judgment, the present net worth of the transferee is less than the greater of Lessee's net worth at the Effective Date or Lessee's "**Net Worth**" (as defined in Subparagraph C below) at the date of Lessee's request for consent to the assignment or subletting; (iv) the proposed assignment or subletting would breach any covenant of Lessor in any other lease, financing agreement or other agreement relating to the Premises or otherwise; or (v) the transferee requests an amendment to the Lease other than the identity of Lessee. No assignment or subletting shall release Lessee from its obligations and liabilities hereunder. Notwithstanding the foregoing and subject to the provisions of subsection (c) below, Lessee may assign this Lease or sublease the Premises ("**Permitted Transfers**"), without Lessor's consent but upon ten (10) days prior written notice to Lessor, to any corporation which controls, is controlled by or is under common control with Lessee, or to any corporation resulting from the merger of or consolidation with Lessee ("**Lessee's Affiliate**"). In such case, any Lessee's Affiliate shall assume in writing all of Lessee's obligations under this Lease.

(b) A "**Change of Control**" of Lessee shall constitute an assignment requiring Lessor's consent. Change of Control shall mean the transfer by sale, assignment, death, incompetency, mortgage, deed of trust, operation of law, or otherwise, of any shares, voting rights or ownership interest which will result in a change in the identity of the entity, entities, person or persons exercising, or who may exercise, effective control of Lessee, unless such change results from the trading of shares listed on a recognized public stock exchange and such trading is not for the purpose of acquiring effective control of Lessee. If Lessee is a private corporation whose stock becomes publicly held, the transfers of such stock from private to public ownership shall not be deemed a Change of Control. The transfer, on a cumulative basis, of fifty percent (50%) or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which may, in Lessor's good faith reasonable business judgment, results in a reduction of the Net Worth of Lessee, as hereinafter defined, by an amount equal to or greater than ten (10%) of such Net Worth of Lessee as it was represented to Lessor at the time of full execution and delivery of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, at whichever time said Net Worth of Lessee was or is greater, shall be considered an assignment of this Lease by Lessee to which Lessor may reasonably withhold its consent. "**Net Worth**" of Lessee for purposes of this Lease shall be the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles consistently applied.

(d) An assignment or subletting of Lessee's interest in this Lease without Lessor's specific prior written consent shall be a Default under this Lease.

(e) Lessee's remedy for any breach of this Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2 **Terms and Conditions Applicable to Assignment and Subletting.**

(a) Regardless of Lessor's consent, any assignment or subletting shall not (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, nor (iii) alter the primary liability of Lessee for the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under this Lease.

(b) Lessor may accept any Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor

the acceptance of any Rent for performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the Default or Breach by Lessee of any of the terms, covenants or conditions of this Lease.

(c) The consent of Lessor to any assignment or subletting shall not constitute consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the assignee or sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable under this Lease or the sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or the sublease.

(d) In the event of any Default or Breach of Lessee's obligation under this Lease, Lessor may proceed directly against Lessee or anyone else responsible for the performance of the Lessee's obligations under this Lease, including any sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor.

(e) Should Lessee desire to enter into an assignment or subletting transaction, Lessee shall give notice thereof to Lessor by requesting in writing Lessor's consent to such assignment or subletting at least thirty (30) days before the proposed effective date of any such assignment or subletting and shall provide Lessor with the following: (i) the full particulars of the proposed assignment or subletting transaction, including its nature, effective date, terms and conditions, and copies of any documents pertaining to such proposed transaction; (ii) a description of the identity, net worth and previous business experience of the transferee, including, without limitation, copies of transferee's latest income, balance sheet and change-of-financial-position statements (with accompanying notes and disclosures of all material changes thereto to the extent such information is available) in audited form, if available, and certified as accurate by the transferee; and (iii) any further information relevant to the transaction which Lessor shall have reasonably requested within ten (10) days after receipt of Lessee's request for consent and all information specified above in Subparagraphs (i), (ii) and (iii).

Each assignment or subletting to which Lessor has consented shall be evidenced by an instrument made in such written form as is satisfactory to Lessor and executed by Lessee and transferee. By such instrument, transferee shall assume all the terms, covenants and conditions of this Lease, which are obligations of Lessee. Lessee shall remain fully liable to perform its duties under the Lease following the assignment or subletting. Lessee shall, on demand of Lessor, reimburse Lessor for Lessor's reasonable and actual costs, including legal fees, incurred in obtaining advice and preparing documentation for each assignment or subletting to which Lessor has consented.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented in writing.

(g) Intentionally deleted.

(h) Intentionally deleted.

(i) If Lessor consents to an assignment or subletting, as a condition thereto which the Parties hereby agree is reasonable, Lessee shall pay to Lessor fifty percent of any "Transfer Premium," as that term is defined in this subparagraph, received by Lessee from such assignee or sublessee. "Transfer Premium" shall mean all rent, additional rent or other consideration payable by the assignee or sublessee in connection with the assignment or sublease in excess of the Base Rent under this Lease during the term of the assignment or sublease on a per rentable square foot basis if less than all of the Premises is transferred, deducting any expenses incurred by Lessee in connection with the assignment or subletting, including without limitation, expenses of marketing brokerage commissions and reasonable attorneys' fees, but excluding expenses incurred in improving the space or loss of rent. "Transfer Premium" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by such assignee or sublessee to Lessee in connection with such assignment or sublease, directly or indirectly (including any consideration received Lessee or any person or any entity or person related to or affiliated with, Lessee [including, but not limited to, any subsidiary or sister corporation] from any assignee or subtenant or any other entity or person related to, or affiliated with, such assignee or subtenant) and any payment for services rendered by Lessee to such transferee or for assets, fixtures, inventory, equipment, or furniture transferred by Lessee to such transferee in connection with such assignment or sublease. The determination of the amount of Lessor's applicable share of the Transfer Premium shall be made on a monthly basis as rent or other consideration is received by Lessee under the assignment or sublease.

(j) In the event of a proposed assignment or subletting, Lessor shall also have the right, by notice to Lessee, to terminate this Lease in the event of an assignment as to all of the Premises and, in the event of a sublease, as to the

subleased portion of the Premises and to require that all or part, as the case may be, of the Premises be surrendered to Lessor for the balance of the Term (collectively "**Recapture the Lease**").

12.3 **Additional Terms and Conditions Applicable to Subletting.** The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations under this Lease, Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of the foregoing provision or any other assignment of such sublease to Lessor, nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such Sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents and other charges due and to become due under the sublease. Sublessee shall rely upon any such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to whether such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee, or, until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(b) In the event of a Breach by Lessee in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to atorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any other prior defaults or breaches of such sublessor under such sublease.

(c) Any matter or thing requiring the consent of the sublessor under a sublease shall also require the consent of Lessor herein.

(d) No sublessee under a sublease approved by Lessor shall further assign or sublet all or any part of the Premises without Lessor's prior written consent, which consent may be granted or denied in Lessor's sole discretion.

13. **Default; Breach; Remedies.**

13.1 **Default; Breach.** Lessee's obligations to Lessor hereunder shall include any and all costs or expenses incurred by Lessor in conjunction with enforcing Lessor's rights and remedies hereunder, which shall include, but shall not be limited to, any attorneys' fees or other legal expenses or costs associated therewith, and that Lessor may include the cost of such services and costs in any notice of Default as rent due and payable to cure said default. A "**Default**" by Lessee is defined as a failure by Lessee to observe, comply with or perform any of the terms, covenants, conditions or rules applicable to Lessee under this Lease. A "**Breach**" by Lessee is defined as the occurrence of any Default, including but not limited to those listed below, and, where a grace period for cure after notice is specified herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, and shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(a) The vacating of the Premises without the intention to reoccupy same, or the abandonment of the Premises; provided, however, that Lessee shall not be deemed to have vacated or abandoned the Premises if it continues to timely pay all amounts due under this Lease, keeps the Premises secure, and otherwise maintains the Premises in accordance with this Lease.

(b) The failure by Lessee to make any payment of Rent or any other monetary payment required to be made by Lessee hereunder as and when due.

(c) Except as expressly otherwise provided in this Lease, the failure by Lessee to provide Lessor with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with Applicable Requirements per Paragraph 6.3, (ii) the inspection, maintenance and service contracts required under Subparagraph 7.1 (b), (iii) the rescission of an unauthorized assignment or subletting per Paragraph 12.1, (iv) an estoppel certificate per Paragraphs 16 or 37, (v) the subordination or non-subordination of this Lease per Paragraph 30, (vi) the Guaranty of the performance of Lessee's obligations under this Lease if required under Paragraphs 1.11 and 37, (vii) the execution of any document requested under Paragraph 41 (Reservations), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice by or on behalf of Lessor to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the Rules and Regulations adopted under Paragraph 39 hereof that are to be observed, complied with or performed by Lessee, other than those described in Subparagraphs 13.1 (a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee's becoming a "debtor" as defined in 11 U.S. Code Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this Subparagraph 13.1 (e) is contrary to any applicable law, such provision shall be of no force or effect, and shall not affect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement of Lessee or of any Guarantor, given to Lessor by Lessee or any Guarantor, was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such Guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the Guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Lessee's failure, within sixty (60) days following written notice by or on behalf of Lessor to Lessee of any such event, to provide Lessor with written alternative assurances of security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 Remedies. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) business days after written notice to Lessee (or in case of an emergency, without notice), Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The actual and reasonable costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor within thirty (30) days of Lessor's delivery of an invoice to Lessee. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor at its own option, may require all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a Breach of this Lease by Lessee, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy, which Lessor may have by reason of such Breach, Lessor may:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the Term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired Term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco or the Federal Reserve Bank District in which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Default or Breach of this Lease shall not waive Lessor's right to recover damages under this Paragraph 13.2. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under Subparagraph 13.1 (b), (c) or (d) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by Subparagraph 13.1 (b), (c) or (d). In such case, the applicable grace period under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the

failure of Lessee to cure the Default within the greater of the two (2) such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Lessor shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Lessor and Lessee agree that the limitations on assignment and subletting this Lease are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Lessor's interest under this Lease, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the Term hereof or by reason of Lessee's occupancy of the Premises.

13.3 **Inducement Recapture in Event of Breach.** Any agreement by Lessor for free or abated rent or other charges applicable to the Premises, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "**Inducement Provisions**" shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Lessee during the Term hereof as the same may be extended. Upon the occurrence of a Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, and recoverable by Lessor, as additional rent due under this Lease, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this Paragraph 13.3 shall not be deemed a waiver by Lessor of the provisions of this Paragraph 13.3 unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 **Late Charges.** Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges, which may be imposed upon Lessor by the terms of any ground lease, mortgage or deed of trust covering the Premises. Accordingly, if any installment of rent or other sum due from Lessee shall not be received by Lessor or Lessor's designee at the address stated in, and in accordance with, the Rent Payment Instructions attached as Exhibit H to this Lease, within five (5) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to five percent (5%) of such overdue amount. Any post dated checks, two party checks, third party checks or any check from a party other than the Lessee named in this Lease will not be accepted and will be deemed late unless a check from the Lessee is received within such five day period. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In addition to the late charge, in the event (i) any check is returned for insufficient funds, (ii) Lessor receives a check for an installment of rent at an address other than the address set forth in the Rent Payment Instructions attached as Exhibit H to this Lease, or (iii) Lessor receives a post dated check, a two party check, a third party check or any check for Rent from a party other than the Lessee named in this Lease, Lessee shall pay to Lessor, as additional rent, the sum of \$50.00. In the event that a late charge is payable hereunder, whether or not collected, for three (3) installments of Base Rent in any twelve (12) month period, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 **Breach by Lessor.** Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph 13.5, a reasonable time (except in the event of an emergency threatening life or property) shall in no event be less than thirty (30) days after receipt by Lessor, and by any Lender(s) whose name and address shall have been furnished to Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

14. **Condemnation.** If the Premises or any portion thereof are permanently taken under the power of eminent domain or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten

percent (10%) of the floor area of the Premises, or more than twenty five percent (25%) of the portion of the Premises designated for Lessee's parking, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing within twenty (20) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within twenty (20) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of Base Rent shall occur if the condemnation does not apply to any portion of the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution of value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any compensation, awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by such condemnation authority. Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. **Brokers.**

15.1 **Procuring Cause.** The Broker(s) named in Paragraph 1.10 is/are the procuring cause of this Lease.

15.2 **Representations and Warranties.** Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder other than as named in Paragraph 1.10 in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Broker(s) is entitled to any commission or finder's fee in connection with said transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, and/or attorneys' fees reasonably incurred with respect thereto.

16. **Estoppel Certificates and Financial Statements.**

16.1 **Estoppel Certificates.** Within ten (10) business days after notice from Lessor, Lessee shall execute and deliver to Lessor a certificate stating such matters reflecting the status of this Lease or the Premises as Lessor or Lessor's lender, purchaser or ground lessor may reasonably request. If Lessee shall fail to deliver such certificate within said ten (10) business day period, such failure shall constitute a material default under this Lease and, at Lessor's option, any representation of Lessor respecting the matters covered by such certificate shall be conclusively presumed to be accurate. Any such election by Lessor shall not cure Lessee's default, and Lessee shall continue to be obligated to deliver such certificate.

16.2 **Financial Statement.** Within ten (10) days of Lessor's request, Lessee shall deliver to any potential lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. **Lessor's Liability.** The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding anything to the contrary contained in the Lease, Lessee agrees that its sole and exclusive remedy shall be against Lessor's interest in the Premises and that the obligations of Lessor under the Lease do not constitute personal obligations of the individual partners, whether general or limited, directors, officers, members, shareholders or trustees of Lessor, and Lessee shall not seek recourse against the individual partners, directors, officers, members, shareholders or trustees of Lessor or any of their personal assets for satisfaction of any liability with respect to the Lease.

18. **Severability.** The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. **Interest on Past-Due Obligations.** Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within ten (10) days following the date on which it was due, shall bear interest from the date due at the rate of eight

percent (8%) per annum, but not exceeding the maximum rate allowed by law, in addition to the potential late charge provided for in Paragraph 13.4.

20. **Time of Essence; Recording.** Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease. Lessee shall not record this Lease or any memorandum of this Lease.

21. **Rent Defined.** All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent.

22. **No Prior or Other Agreements.** This Lease (including all exhibits and addenda) contains all agreements, representations and warranties between the Parties with respect to any matter mentioned herein and supersedes and cancels any and all previous negotiations, arrangements, brochures, marketing materials, agreements and understandings, if any, and no other prior or contemporaneous agreement or understanding (whether verbal or written) shall be effective. This Lease may not be modified, deleted or added to except by a writing signed by the Parties hereto. The Parties acknowledge that (i) each Party and/or its counsel have reviewed and revised this Lease, and (ii) no rule of construction to the effect that any ambiguities are to be resolved against the drafting Party shall be employed in the interpretation or enforcement of this Lease.

23. **Notices.** All notices required or permitted by this Lease shall be in writing and shall be and deemed duly served or given when actually delivered, if personally delivered or delivered by overnight courier (including delivery by FedEx, which confirms delivery in writing), or within three (3) business days after deposit in the U.S. Mail, if sent by certified mail, postage prepaid, return receipt requested, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. If notice is received on a Saturday or a Sunday or a legal holiday, it shall be deemed received on the next business day. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for the purpose of mailing or delivering notices to Lessee. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such Party or Parties at such addresses as Lessor may from time to time hereafter designate by written notice to Lessee.

24. **Waivers.** No waiver by either Party of the Default or Breach of any term, covenant or condition hereof by the other Party, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by the other Party of the same or any other term, covenant or condition hereof. Lessor's consent to, or approval of, any such act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Lessor's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any Default or Breach by Lessee of any provision hereof. Any payment given Lessor by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. **Access to the Premises.** Subject to the terms of this Lease, including but not limited to, the Rules and Regulations attached hereto as Exhibit D, Lessee and its employees shall have access to the Premises twenty-four (24) hours per day, 365 days per year.

26. **No Right To Holdover.** Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. In the event that Lessee holds over in violation of this Paragraph 26 then the Base Rent payable from and after the time of the expiration or earlier termination of this Lease shall be increased to (a) for the first month of such holdover, one hundred five percent (105%) of the Base Rent applicable during the month immediately preceding such expiration or earlier termination, and (b) thereafter, one hundred twenty-five percent (125%) of the Base Rent applicable during the month immediately preceding such expiration or earlier termination. Additionally, in the event that upon the expiration or earlier termination of the Lease, Lessee has not fulfilled its obligation with respect to restoration, repairs and cleanup of the Premises or any other Lessee obligations as set forth in this Lease, then Lessor shall have the right to perform any such obligations as it deems necessary at Lessee's sole cost and expense, and any time required by Lessor to complete such obligations shall be considered a period of holding over and the terms of this Paragraph 26 shall apply. Lessee shall protect, defend, indemnify and hold Lessor harmless from all loss, costs (including reasonable attorneys' fees), direct and indirect damages, and liability resulting from Lessee's holding over, including, without limiting the generality of the foregoing, the cost of unlawful detainer proceedings instituted by Lessor against Lessee, increased construction costs to Lessor as a result of Lessor's inability to timely commence construction of improvements for a new tenant for the Premises, lost profits that results from Lessor's inability to timely deliver the Premises to such new tenant, and any claims made by any succeeding tenant founded upon such failure to surrender and any lost profits to Lessor resulting therefrom. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

Initial _____
Initial _____

27. **Cumulative Remedies.** No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. **Covenants and Conditions.** All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions.

29. **Binding Effect; Choice of Law.** This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Lessee expressly agrees that any and all disputes arising out of or in connection with this Lease shall be litigated only in the Superior Court of the State of California for the county in which the Premises are located (and in no other), and Lessee hereby consents to the jurisdiction of said court.

30. **Subordination; Attornment; Non-Disturbance.**

30.1 **Subordination.** This Lease and any Option granted hereby shall automatically be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device or amendment or modification thereto (collectively, "**Security Device**"), now or hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessee agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default pursuant to Paragraph 13.5. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 **Attornment.** Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one month's rent.

30.3 **Non-Disturbance.** With respect to Security Devices entered into for the first time (as opposed to amendments or modifications to existing Security Devices) by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receipt of an assurance (a "**Nondisturbance Agreement**") from the Lender that Lessee's possession and this Lease, including any options to extend the Term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 **Self-Executing.** The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of Premises, Lessee and Lessor shall, within ten (10) days following the date of such request, execute such further writings as may be reasonably required to separately document any such subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for herein.

31. **Attorneys' Fees.** If any Party brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "**Prevailing Party**" shall include, without limitation, a Party who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party of its claim or defense. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. Lessor shall be entitled to attorneys' fees, costs and expenses incurred in preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.

32. **Lessor's Access; Showing Premises; Repairs.** Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times and upon prior reasonable notice to Lessee, for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises, as Lessor may reasonably deem necessary, including the right to take photographs of the Premises in connection with such entry. Lessor may at any time place on or about the Premises any ordinary "For Sale" signs and Lessor may at any time during the last three hundred sixty five (365) days of the Term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of rent or liability to Lessee.

33. **Auctions.** Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. **Signs.** Lessee shall not place any sign upon the exterior of the Premises, except that Lessee may, with Lessor's prior written consent and at Lessee's sole cost and expense, install (but not on the roof) such signs as are reasonably required to advertise Lessee's own business so long as such signs are in a location designated by Lessor and comply with Applicable Requirements and the signage criteria established for the Premises by Lessor. Notwithstanding the foregoing, at Lessee's sole cost and expense, Lessee shall have the right to install (a) a sign on the exterior of the Building, and (b) a monument sign in front of the Building, subject to Lessor's prior approval of such signage and Lessee's compliance with the other provisions of this Paragraph 34. The location, quality, design, style, lighting and size of such signage shall be subject to Lessor's prior written approval. The right granted under this paragraph shall be personal to the originally named Lessee under this Lease. Such signage shall comply with all applicable laws, statutes, regulations, ordinances and restrictions, including but not limited to, any permit requirements. Lessee shall install and maintain said signage in good condition and repair at its sole cost and expense during the entire Term. The installation of any sign on the Premises by or for Lessee shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations). Unless otherwise expressly agreed herein, Lessor reserves all rights to the use of the roof of the Premises, and the right to install advertising signs on the Premises, including the roof, which do not unreasonably interfere with the conduct of Lessee's business; Lessor shall be entitled to all revenues from such advertising signs.

35. **Termination; Merger.** Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Lessor shall, in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. **Consents.** Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld, conditioned or delayed. Lessor's actual costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to this Lease or the Premises, including but not limited to consents to an assignment a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee to Lessor upon receipt of an invoice therefor. Lessor's consent to any act, assignment of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. Lessee acknowledges all conditions to Lessor's consent authorized by this Lease as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall not preclude the impositions by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. **Guarantor.** Intentionally deleted.

38. **Quiet Possession.** Upon payment by Lessee of the Rent for the Premises and the performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, and unless specifically provided herein, Lessee shall have quiet possession of the Premises for the entire Term hereof subject to all of the provisions of this Lease.

39. **Rules and Regulations.** Lessee agrees that it will abide by, and keep and observe all reasonable rules and regulations (" **Rules and Regulations**") which Lessor may make from time to time for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order. The current Rules and Regulations are attached hereto as Exhibit D.

40. **Security Measures.** Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties and shall install, at Lessee's sole cost and expense, any and all necessary security devices.

41. **Reservations.** Lessor reserves the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights of way, utility raceways, and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights of way, utility raceways, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

42. **OFAC Compliance.** Lessee represents, warrants and covenants to Lessor that neither they are not, and, after making due inquiry, that no person or entity that owns a 10% or greater equity interest in or otherwise controls Lessee, nor any of their respective officers, directors or managing members, (i) is a person or entity with whom U.S. persons or entities are restricted from doing business under regulations of the Office of Foreign Asset Control (“OFAC”) of the Department of the Treasury (including those named on OFAC’s Specially Designated and Blocked Persons List or any similar list) or under any statute, executive order (including Executive Order 13224 (the “Executive Order”) signed on September 24, 2001 and entitled “Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism”), or other governmental action, (ii) is currently subject to any U.S. sanctions administered by OFAC, (iii) is in violation of the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 or the regulations or orders promulgated thereunder (as amended from time to time, the “Money Laundering Act”) and none of the activities of such person violate the Money Laundering Act, and (iv) that throughout the term of this Lease the Lessee shall comply with the Executive Order and with the Money Laundering Act.

43. **Authority.** If either Party hereto is a corporation, limited liability company, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. If Lessee is a corporation, limited liability company, trust or partnership, Lessee shall, within five (5) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

44. **Conflict; Counterparts.** The typewritten or handwritten provisions shall control any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions. This Lease may be executed in counterparts, each of which shall be deemed an original, but such counterparts, when taken together, shall constitute one agreement.

45. **Offer.** Preparation of this Lease by either Lessor or Lessee or Lessor’s agent or Lessee’s agent and submission of same to Lessee or Lessor shall not be deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

46. **Amendments.** This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. The Parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease. As long as they do not materially change Lessee’s obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by an institutional insurance company or pension plan Lender in connection with the obtaining of normal financing or refinancing of the property of which the Premises are a part.

47. **Multiple Parties.** Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee, the obligations of such multiple parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

48. **Construction.** Headings at the beginning of each paragraph and subparagraph are solely for the convenience of the Parties and are not a part of the Lease. Whenever required by the context of this Lease, the singular shall include the plural and the masculine shall include the feminine and vice versa. This Lease shall not be construed as if it had been prepared by one of the Parties, but rather as if both Parties had prepared the same and, consequently, any inconsistencies or ambiguities herein shall not be interpreted against either Party as the drafter of the Lease. Unless otherwise indicated, all references to paragraphs and subparagraphs are to this Lease. All exhibits referred to in this Lease are attached and incorporated by this reference. Except as specifically provided herein, Lessee hereby agrees that Lessee shall not disclose any of the economic terms of this Lease to any person or entity not a party to this Lease, nor shall Lessee issue any press releases or make any public statements relating to the terms or provisions of this Lease; provided, however, Lessee may make necessary disclosures to potential lenders, attorneys, accountants and space planning consultants, and/or as may be required by applicable Laws or court order, so long as such Parties agree to keep all of the economic terms of this Lease strictly confidential. The obligation of Lessee set forth in this paragraph shall survive the expiration or any earlier termination of this Lease.

THE PARTIES HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR YOUR ATTORNEY’S REVIEW AND APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PREMISES AS TO THE POSSIBLE PRESENCE OF ASBESTOS, UNDERGROUND STORAGE TANKS OR HAZARDOUS SUBSTANCES. THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The Parties hereto have executed this Lease as of the Effective Date.

LESSOR

WESTCORE II NEWHOPE, LLC,
a Delaware limited liability company

By: Westcore II Investco, LLC,
a Delaware limited liability company,
its Sole Member

By: Westcore Properties II, LLC,
a Delaware limited liability company,
its Sole Member

By: /s/Donald Ankeny
Name: Donald Ankeny
Title: Authorized Officer

Address:

c/o Westcore Properties, LLC
4350 La Jolla Village Drive, Suite 900
San Diego, CA 92122
Telephone: (858) 625-4100
Facsimile: (858) 678-0060

LESSEE

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

By: /s/ David Weinberg
Name: David Weinberg
Title: COO

Address:

225 S. Sepulveda Blvd
Manhattan Beach, CA 90266

Telephone: (310) 318-3100
Facsimile: ()

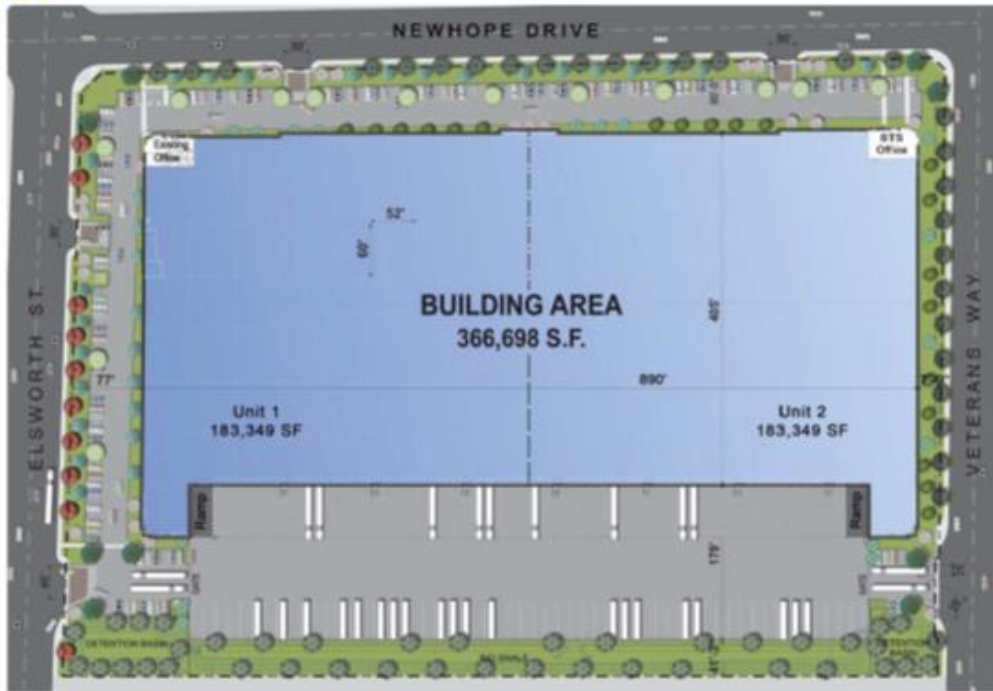
Initial _____
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EXHIBIT A

PREMISES

THE SITE PLAN SET FORTH HEREIN IS FOR INFORMATIONAL PURPOSES ONLY AND DOES NOT CONSTITUTE A WARRANTY OR REPRESENTATION CONCERNING THE SIZE OR LAYOUT OF THE PREMISES.

 **SITE PLAN**



Initial _____
Initial _____

EXHIBIT B

LESSOR'S WORK

Dock High Doors to be equipped with 6x8 35,000 lb capacity mechanical levelers are marked with a red arrow:

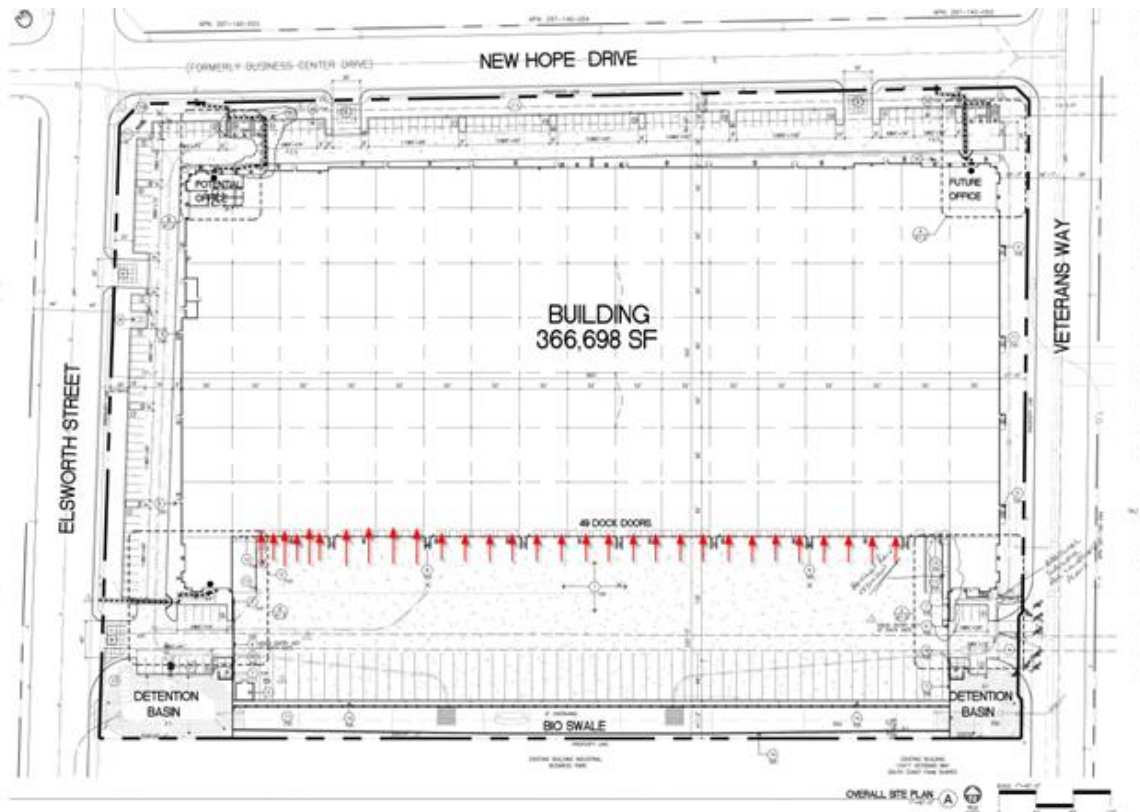


EXHIBIT C

INTENTIONALLY OMITTED

Page 1 of 1

Initial _____
Initial _____

EXHIBIT D

RULES AND REGULATIONS

1. No sign, placard, picture, advertisement, name or notice shall be inscribed, displayed or affixed on or to any part of the outside or inside of the Premises or the surrounding area without the written consent of the Lessor being first obtained. If Lessor gives such consent, Lessor may regulate the manner of display of the sign, placard, picture, advertisement, name or notice. Lessor shall have the right to remove any sign, placard, picture, advertisement, name or notice which has not been approved by Lessor or is being displayed in a non-approved manner without notice to and at the expense of the Lessee. All approved signs or lettering on doors shall be printed, painted, affixed or inscribed at the expense of Lessee by a person approved by Lessor. Lessor shall not place anything or allow anything to be placed near window, door, partition or wall, which may appear unsightly from outside of the Premises.

2. The sidewalks, halls, passages, exits and entrances shall not be obstructed by any of the lessees or used by them for any purpose other than for ingress to and egress from their respective Premises. The halls, passages, exits, entrances and roof are not for the use of the general public and the Lessor shall in all cases retain the right to control thereof and prevent access thereto by all persons whose presence in the judgment of the Lessor shall be prejudicial to the safety, character, reputation and interests of the Premises or its lessees; provided, however, that nothing herein contained shall be construed to prevent access by persons with whom the Lessee normally deals in the ordinary course of Lessee's business unless such persons are engaged in illegal activities. No lessee and no employees or invitees of any lessee shall go upon the roof of the Premises.

3. Lessee shall not alter any lock or install any new additional locks or bolts on any exterior door of the Premises without the written consent of Lessor. Lessee may install an electronic alarm system.

4. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from a violation of this rule shall be borne by the Lessee who, or whose employees or invitees, shall have caused it.

5. Lessee shall not overload the floor of the Premises and shall not deface the Premises.

6. Lessee shall not use, keep or permit to be used or kept any noxious gas or substance in the Premise, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to the Lessor by reason of noise, odors and/or vibrations. Neither animals nor birds shall be brought in or kept in or about the Premises. No lessee shall make or permit to be made any disturbing noises or disturb or interfere with occupants of this or neighboring projects or premises, or with those having business with such occupants, by the use of any musical instruments, radio, phonograph, unusual noise, or in any other way. No lessee shall throw anything out of doors. No cooking shall be done or permitted by Lessee in the Premises beyond the use of a microwave oven or other small appliances.

7. No Lessee shall occupy or permit any portion of its Premises to be occupied for the manufacture, sale, or use of liquor or narcotics in any form, or as a medical office, or as a barbershop or manicure shop, except without prior written consent of Lessor. The Premises shall not be used for lodging or sleeping or for illegal purposes.

8. Lessor will direct electricians as to where and how telephone wires are to be introduced. No boring or cutting for or stringing of wires will be allowed without the consent of Lessor. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Lessor.

9. Lessee upon termination of the tenancy, shall deliver to the Lessor the keys to the Premises, offices, rooms, and toilet rooms which shall have been furnished and shall pay the Lessor the cost of replacing any lost key or of changing the lock or locks opened by such lost key if Lessor deems it necessary to make such change.

10. No lessee shall lay linoleum, tile, carpet or other similar floor coverings so that the same shall be affixed to the floor of the Premises in any manner except as approved by the Lessor. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by the lessee by whom, or by whose contractors, employees or invitees, the floor covering shall have been laid.

11. In case of invasion, mob riot, public excitement, or other commotion, the Lessor reserves the right to prevent access to the Premises during the continuance of the same, by closing the doors or otherwise, for the safety of the lessees and

protection of the Premises and property located therein. Anything to the foregoing notwithstanding, Lessor shall have no duty to provide security protection for the Premises at any time or to monitor access thereto.

12. Lessee shall see that the doors of the Premises are closed and securely locked before leaving the Premises and that all water faucets, water apparatus and electricity are entirely shut off before Lessee or Lessee's employee's leave the Premises. Lessee shall be responsible for any damage to the Premises or other lessees' premises caused by a failure to comply with this rule.

13. Lessor reserves the right to exclude or expel from the Premises any person who, in the judgment of Lessor, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Premises.

14. Any requests of Lessee will be considered only upon application at the Office of Lessor. Employees of Lessor shall not be requested to perform any work or do anything outside of their regular duties unless under special instructions from the Lessor.

15. Lessor shall have the right, exercisable with reasonable notice and without liability to Lessee, to change the name and the street address of the Premises are a part, where such change is required by any government agency.

16. Lessee agrees that it shall comply with all fire regulations that may be issued from time to time by any governmental authority having jurisdiction over the Premises, and Lessee also shall provide Lessor with the name of a designated responsible employee to represent Lessee in all matters pertaining to fire regulations.

17. Lessor reserves the right by written notice to Lessee, to rescind, alter or waive any rule or regulation at any time prescribed for the Premises when, in Lessor's reasonable judgment, it is necessary, desirable or proper for the best interest of the Premises.

EXHIBIT E

NOTICE OF LEASE TERM DATES

To: _____

Re: Single Tenant Industrial/Commercial Lease (Net) dated December 27, 2017 (the "Lease") between Westcore II Newhope, LLC, a Delaware limited liability company ("Lessor"), and Skechers U.S.A., Inc., a Delaware corporation ("Lessee") concerning 22705 Newhope Drive, Moreno Valley, California.

Gentlemen:

In accordance with the Lease, we wish to advise you and/or confirm as follows:

1. The Commencement Date occurred on _____, 20__ and the Expiration Date shall occur on _____, 20__.
2. Rent commenced to accrue on _____, in the amount of _____. Monthly Base Rent shall be payable in accordance with the following schedule:

<u>Period</u>	<u>Monthly Installment of Base Rent</u>
_____, 201__ – _____, 201__	\$
_____, 201__ – _____, 202__	\$
_____, 202__ – _____, 202__	\$

3. If the Commencement Date is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter, with the exception of the final billing, shall be for the full amount of the monthly installment as provided for in the Lease.

"Lessor":

WESTCORE II NEWHOPE, LLC,
a Delaware limited liability company

By: Westcore II Investco, LLC,
a Delaware limited liability company,
its Sole Member

By: Westcore Properties II, LLC,
a Delaware limited liability company,
its Sole Member

By: _____
Name: _____
Title: _____

Agreed to and Accepted as of _____, 20__.

“Lessee”:

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

By: _____
Name: _____
Title: _____

Initial _____
Initial _____

EXHIBIT F

HAZARDOUS SUBSTANCES SURVEY FORM

The purpose of this form is to obtain information regarding the use of Hazardous Substances on the Premises. Prospective lessees should answer the questions in light of their proposed operations on the Premises. Existing lessees should answer the questions as they relate to ongoing operations on the Premises and should update any information previously submitted. If additional space is needed to answer the questions, you may attach separate sheets of paper to this form.

Your cooperation in this matter is appreciated. Any questions should be directed to, and when completed, the form should be mailed to:

1. GENERAL INFORMATION

Company Name: _____

Check Applicable Status: Prospective Lessee: _____ Current Lessee: _____

Mailing Address: _____

Contact Person & Title: _____

Phone #: () _____

Address of Premises: _____

Describe the proposed operations to take place on the Premises, including principal products manufactured or services to be conducted. Existing lessees should describe any proposed changes to ongoing operations.

2. STORAGE OF HAZARDOUS SUBSTANCES

2.1 Will any Hazardous Substances be used or stored on the Premises?

Wastes Yes _____ No _____

Chemical Products Yes _____ No _____

Attach the list of any Hazardous Substances to be used or stored, the quantities that will be on site at any given time, and the location and method of storage.

3. STORAGE TANKS & SUMPS

3.1 Is any above or belowground storage of gasoline, diesel, or other Hazardous Substances in tanks or sumps proposed or currently conducted on the Premises?

Yes _____ No _____

If yes, describe the materials to be stored, and the type, size and construction of the sump or tank. Attach copies of any permits obtained for the storage of such substances.

3.2 Have any of the tanks or sumps been inspected or tested for leakage?

Yes _____ No _____

If so, attach results.

3.3 Have any spills or leaks occurred from such tanks or sumps?

Yes _____ No _____

If so, describe.

3.4 Were any regulatory agencies notified of the spill or leak?

Yes _____ No _____

If so, attach copies of any spill reports filed, any clearance letters or other correspondence from regulatory agencies relating to the spill or leak.

3.5 Have any underground storage tanks or sumps been taken out of service or been removed?

Yes _____ No _____

If yes, attach copies of any closure permits and clearance obtained from regulatory agencies relating to closure and removal of such tanks.

4. SPILLS

4.1 During the past year, have any spills occurred on the Premises?

Yes _____ No _____

If so, please describe the spill and attach the results of any testing conducted to determine the extent of such spills.

4.2 Were any agencies notified in connection with such spills?

Yes _____ No _____

If so, attach copies of any spill reports or other correspondence with regulatory agencies.

4.3 Were any cleanup actions undertaken in connection with the spill?

Yes _____ No _____

If so, briefly describe the actions taken. Attach copies of any clearance letters obtained from any regulatory agencies involved and the results of any final soil or ground water sampling done upon completion of the cleanup work.

5. WASTE MANAGEMENT

5.1 Has your company been issued an EPA Hazardous Waste Generator I.D. Number?

Yes _____ No _____

5.2 Has your company filed a biennial report as a hazardous waste generator?

Yes _____ No _____

If so, attach a copy of the most recent report files.

5.3 Attach a list of the Hazardous Substances, if any, generated or to be generated at the Premises, its hazard class and the quantity generated on a monthly basis.

5.4 Describe the method(s) of disposal for each substance. Indicate where and how often disposal will take place.

5.5 Indicate the name of the person(s) responsible for maintaining copies of hazardous manifests completed for off-site shipments of Hazardous Substances.

5.6 Is any treatment or processing of Hazardous Substances currently conducted or proposed to be conducted at the Premises:

Yes _____ No _____

If yes, please describe any existing or proposed treatment methods.

5.7 Attach copies of any hazardous waste permits or licenses issued to your company with respect to its operations on the Premises.

6. WATER TREATMENT / DISCHARGE

6.1 Do you discharge waste water to:

_____ storm drain? _____ sewer?
_____ surface water: _____ no industrial discharge.

6.2 Is your wastewater treated before discharge?

Yes _____ No _____

If yes, describe the type of treatment conducted.

Attach copies of any wastewater discharge permits issued to your company with respect to its operations on the Premises.

7. AIR DISCHARGES

7.1 Do you have any filtration systems or stacks that discharge into the air?

Yes _____ No _____

7.2 Do you operate any of the following types of equipment, or any other equipment requiring an air emissions permit?

_____ Spray booth
_____ Dip tank
_____ Drying oven
_____ Incinerator
_____ Other _____
_____ No Equipment Requiring Air Permits

7.3 Are air emissions from your operation monitored?

Yes _____ No _____

If so, indicate the frequency of monitoring and a description of the monitoring results.

7.4 Attach copies of any air emissions permits pertaining to your operations on the Premises.

8. HAZARDOUS SUBSTANCES DISCLOSURES

8.1 Does your company handle Hazardous Substances in a quantity equal to or exceeding an aggregate of 500 pound, 5 gallons, or 200 cubic feet?

Yes _____ No _____

8.2 Has your company prepared a Hazardous Substances management plan (“Business Plan”) pursuant to the Fire Department requirements for the County in which the Premises is located?

Yes _____ No _____

8.3 Are any of the chemicals used in your operation regulated under Proposition 65?

Yes _____ No _____

If so, describe the actions taken, or proposed actions to be taken, to comply with the proposition.

8.4 Describe the procedure followed to comply with OSHA Hazard Communication Standard requirements.

9. ENFORCEMENT ACTIONS, COMPLAINTS

9.1 Has your company ever been subject to any agency enforcement actions, administrative orders, or consent decrees?

Yes _____ No _____

If so, describe the actions and any continuing compliance obligations imposed as a result of these actions.

9.2 Has your company ever received requests for information, notice or demand letters, or any other inquiries regarding its operation?

Yes _____ No _____

9.3 Have there ever been, or are there now pending, any lawsuits against the company regarding any environmental or health and safety concerns?

Yes _____ No _____

9.4 Has an environmental audit ever been conducted at your company’s current facility?

Yes _____ No _____

9.5 Have there been any problems or complaints from neighbors at the company’s current facility?

Yes _____ No _____

Company

By: _____

Title: _____

Date: _____

EXHIBIT G

MOVE OUT STANDARDS

Before surrendering the Premises, Lessee shall remove all of its personal property, trade fixtures and such improvements, alterations or additions to the Premises made by Lessee as may be specified for removal by Lessor and repair any damage caused by such removal such that the damaged area is returned to the condition that existed prior to the installation of such personal property, trade fixtures, improvements, alterations or additions. Lessee shall, at its sole cost and expense, engage consultant(s) acceptable to Lessor to oversee the removal if it is deemed necessary by Lessor, in its sole discretion. Ordinary wear and tear shall not include any damage or deterioration that would have been prevented by good maintenance practices, Lessee's proper and orderly occupation and use of the Premises or by Lessee timely performing its obligations in this Lease.

If Lessee fails to remove its personal property, trade fixtures, improvements, alterations or additions upon the Expiration Date or earlier termination of this Lease, the same shall be deemed abandoned and shall become the property of the Lessor. Notwithstanding the foregoing, Lessee shall be liable to Lessor for all costs and damages incurred by Lessor in removing, storing or selling such personal property, trade fixtures, improvements, alterations or additions and in restoring the Premises the condition required as provided in this Lease.

Notwithstanding anything to the contrary in this Lease and in addition to the requirement of Paragraph 7.4 of the Lease, Lessee shall surrender the Premises, at the time of the Expiration Date or earlier termination of this Lease, in a condition that shall include, without limitation, the following:

- 1. Lights: Office, warehouse and exterior lights and ballasts must be fully operational with all bulbs functioning. Broken light lenses must be replaced with matching lenses. Ballast color should all be uniform (either all "cool" or all "warm").
- 2. Dock Levelers & Roll-Up Doors: Must be fully operational. Damaged panels must be replaced and painted to match. All missing or damaged dock bumpers, dock levelers, Dok-loks and Dok-lok lights must be replaced.
- 3. Truck Doors, Dock Seals, and Awnings: Metal and fabric awnings must be free of damage and tears. Frames and fasteners must be secure and undamaged. Dock seals must be free of damage, operational and securely fastened in place.
- 4. Warehouse Floors and Columns: Must be free of stains and swept with no racking bolts and other protrusions left in floor. Bolts must be ground down or removed and patched with an appropriate epoxy filing; bolts must not be removed with a gas torch. Cracks in the floor which are 1/4" or greater must be repaired with an epoxy sealer. Heavily scarred floor seal requires re-sealing. Damaged or bent columns, bollards, railing, etc. must be repaired.
- 5. Lessee Installed Equipment & Wiring: Must be removed and space returned to original condition when originally leased (remove air lines, junction boxes, conduit, etc.). Security systems must be disarmed and removed with damage, if any, repaired. Phone systems must be removed and damage, if any, repaired.
- 6. Walls: All nails, shelves, and toggle bolts must be removed from walls. Holes must be professionally filed and sanded. Large damaged areas may require tape, bed and sanding. Holes must not remain in either office or warehouse walls. Any sticky residue from placards or signs must be completely removed.
- 7. Roof: Any lessee-installed equipment must be removed and roof penetrations properly repaired by a licensed roofing contractor. If maintenance of the roof is a Lessee responsibility, then active leaks must be fixed and the most recent Lessor maintenance and repairs recommendations must have been completed.

8. Signs: All exterior Lessee signage must be removed, holes patched, fixings remediated and paint touched up to match, as necessary. All door and window signs must be removed and damage, if any, repaired.
9. Heating & Air Conditioning System: If maintenance of the HVAC equipment is a Lessee responsibility, then a written report from a licensed contractor must be submitted to Lessor within the last two (2) months of the Term. The report must (i) state that all evaporative coolers and/or heaters within the warehouse are operational and safe and that office HVAC system is also in good and safe operating condition, and (ii) set out detailed specifications of work necessary to put any equipment and installations into such condition. All repairs/maintenance specified in the HVAC report must be completed by Lessee.
10. Painting: All touch up painting must match existing paint. Scarred and damaged walls and rooms may need to be entirely repainted.
11. Doors: All interior and exterior personnel doors (for office and warehouse) must be in good appearance and fully operational including fixtures, door closures, etc. Holes/scars in doors must be repaired and painted to match. Irreparable holes will require door replacement of matching and like quality doors. Any signs or name placards on doors must be removed as well as any residue leftover from adhesion.
12. Ceiling Tiles Any damaged or stained ceiling tiles in the office area should be replaced.
13. Overall Cleanliness: Clean windows, kitchens, and restrooms to full janitorial standard (i.e., strip/wax floors, sanitize toilets, sinks, clean under cabinets, exhaust fans must be operational, fixtures must be operational, etc.), professionally clean carpet, VCT floors require stripping and waxing, and remove any and all debris from office and warehouse areas. Remove all pallets and debris from exterior of Premises. Debris and trash may not be stored temporarily outside of the Building. Parking lot must be swept and dumpster removed. If appropriate, interior pest control treatment must be completed.
- Systems: 14. Building All building systems must be in good and safe working order (e.g., plumbing, electrical, fire alarms, intruder alarms, etc.). Provide certification of recent fire sprinkler inspection by a licensed company, if a Lessee responsibility.
15. External All landscaping, parking and other external areas must be repaired as necessary if a lessee responsibility, including but not limited to the removal of all debris and trash, remarking/repainting parking lots, repair/replacement of generic and emergency signage, resetting/replacing damaged curb stones, and replacing/repairing damaged gulley grids and manhole covers.
16. Upon Completion: Contact Lessor's property manager to coordinate date of turning off power and utilities, turning in keys, and obtaining final Lessor Inspection of the Premises.

EXHIBIT H

RENT PAYMENT INSTRUCTIONS

[ATTACHED]

Page 1 of 1

Initial _____
Initial _____

SKECHERS U.S.A., INC.
EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (“Agreement” herein) is entered into as of January 1, 2018, by and between SKECHERS U.S.A., INC., a Delaware corporation (the “Company”), and DAVID WEINBERG (“Employee”).

1. Employment and Duties. The Company hereby employs Employee as Chief Operating Officer of the Company on the terms and subject to the conditions contained in this Agreement. Employee hereby accepts such employment and agrees to perform in good faith and to the best of Employee's ability all services which may be required of Employee hereunder, to do what is asked of him, and to be available to render services at all times and places in accordance with such directions, requests, rules and regulations made by the Company in connection with Employee's employment. Employee hereby acknowledges and understands the duties and services that are expected of him hereunder, and he hereby represents that he has the experience and knowledge to perform such duties and services. Employee shall report to the Chief Executive Officer Robert Greenberg, or such other executive officer as may be designated by the Company. Employee shall be based at the Company's corporate offices. Employee understands, however, that Employee may be required to travel within and outside of the State of California to discharge his duties hereunder.

2. Devotion to Company Business. Employee shall devote his full business time, ability, and attention to the business of the Company during the term of this Agreement and shall not during the term of this Agreement engage in any other business activities, duties, or pursuits whatsoever, or directly or indirectly render any services of a business, commercial, or professional nature to any other person or organization, whether for compensation or otherwise, without the prior written consent of the Company's Board of Directors. It shall not be a violation of this Agreement for Employee to (a) engage in charitable or community activities, or in trade or professional organizations, or (b) manage personal investments, as long as such activities do not significantly interfere with the performance of Employee's responsibilities as an employee of the Company in accordance with this Agreement. Nothing in this Agreement shall be interpreted to prohibit Employee from making passive personal investments. However, Employee shall not directly or indirectly acquire, hold, or retain any interest in any business competing with or similar in nature to the business of the Company, except as permitted by Company policies or authorized by the The Board of Directors.

3. Fiscal Year and Term of Employment Agreement. The Company's fiscal year is January 1 through December 31 of each year (“Fiscal Year”), with the respective fiscal quarters ending March 31, June 30, September 30 and December 31 of each year (“Fiscal Quarter”). The term of this Agreement shall commence as of the date hereof and shall terminate on December 31, 2021 (the “Term”), unless sooner terminated as provided herein.

4. Compensation. As compensation for Employee's services hereunder and all the rights granted hereunder by Employee to the Company, Employee will be entitled to the following pay and benefits:

4.1 Salary. The Company will pay Employee a gross salary of not less than USD \$2,875,000 per fiscal year during the term of this Agreement. Employee's salary shall be payable in bi-weekly increments in accordance with the Company's payroll practices for salaried employees.

4.2 Annual Bonus. Employee will be eligible to receive an annual bonus in an amount of not less than 0.165% percent of the amount which net sales for the applicable Fiscal Year during the Term exceed net sales for the prior Fiscal Year, such amounts being payable on a quarterly basis during the Term in an amount which net sales for the applicable Fiscal Quarter exceed net sales for the corresponding Fiscal Quarter in the prior year. The bonus, if any, for each such Fiscal Quarter will be paid no later than the end of the Fiscal Quarter following the Fiscal Quarter in which the bonus is earned.

4.3 Restricted Stock. Employee and the Company acknowledge the Company's (i) October 21, 2014 Restricted Stock Agreement granting Employee an award of 90,000 shares (adjusted for split) of restricted Class A Common Stock of the Company, which vest as follows: 45,000 shares on each of March 1, 2017 and 2018; (ii) March 30, 2016 Restricted Stock Agreements granting Employee an award of 175,000 shares of restricted Class A Common Stock of the Company, which vest as follows: 50,000 shares on each of May 1, 2017 and 2018, and 37,500 shares on each of May 1, 2019 and 2020; and (iii) January 12, 2018 Restricted Stock Award Grant Notice granting Employee an award of 327,000 shares of restricted Class A Common Stock of the Company, which vest as follows: 63,500 shares on each of March 1, 2019 and March 1, 2020 and 100,000 shares on each of March 1, 2021 and March 1, 2022 (collectively, "Employee's Restricted Stock Agreements"), which are all subject to the terms and conditions of the Company's 2007 Incentive Award Plan and the restricted stock agreement thereunder entered into between Employee and the Company (the "Company's Incentive Award Plan"). Employee and the Company further acknowledge that the grant of restricted stock under this Section 4.3 is over and above any stock that had previously been granted to Employee and not in lieu of any such stock.

4.4 Automobile Allowance. The Company will provide Employee with a Company car commensurate with his position to use for Company business and will pay the automobile insurance premiums on Employee's behalf.

4.5 Vacation. Employee shall have the right during each one year period of the term of this Agreement to earn and accrue four weeks of paid vacation, in accordance with and subject to the provisions of the Company's vacation policy in effect from time to time. Employee may take accrued vacation at such times that are mutually convenient to Employee and the Company, subject to the business requirements of the Company.

4.6 Employee Plans, etc. Employee shall be entitled to participate, to the same extent as other officers of the Company, in any bonus compensation plan, stock purchase or stock option plan, group life insurance plan, group medical insurance plan and other compensation or

employee benefit plans (collectively, "Plans") which are generally available to a majority of the other officers of the Company during the term hereof and for which Employee shall qualify. Employee further understands, however, that the Board of Directors, or such committee or person or persons designated by the Board of Directors, shall determine in its sole discretion (i) whether any Plans are made available to a majority of the officers of the Company; (ii) whether one or more Plans are adopted solely for the Chief Executive Officer and/or one or more (but not a majority) of the officers of the Company; (iii) whether one or more Plans are made available to a majority of the officers; and (iv) the amounts payable or the benefits provided thereunder to each participant in whole or in part. Employee agrees and acknowledges that he has no vested interest in the continuance of any Plan, and that no Plan in existence on the date of this Agreement has acted as a material inducement to Employee in entering into this Agreement.

4.7 Other Benefits. Employee shall be entitled to participate, in the same manner and to the same extent as other officers of the Company, in all of the Company's employee benefits as described in the Company's Employee Handbook. However, nothing shall require or obligate the Company to adopt or implement, or to prevent, preclude or otherwise prohibit the Company from amending, modifying, continuing, discontinuing, or otherwise terminating any particular employee benefit plan, program or arrangement.

4.8 Company Airplane. Employee will be entitled to reasonable use of the Company's private airplane, subject to availability determined by the Company's business needs and the ranking of Company employees who are entitled to use the airplane. Use of the airplane solely for business purposes will not be treated as compensation to Employee. Use of the airplane with a guest or for other personal matters will be treated as compensation to Employee, and will be reported on an IRS W-2 Form issued to Employee. The Compensation Committee of the Company's Board of Directors will have sole discretion (i) to determine whether or not Employee's use of the airplane will be treated as compensation to Employee, (ii) to determine the amount of compensation that will be attributed to Employee, in accordance with IRS regulations, and (iii) to put limitations on Employee's use of the airplane for purposes treated as compensation to Employee.

5. Expense Reimbursement. Employee shall be reimbursed by the Company for all traveling, hotel, entertainment and other expenses that are properly and necessarily incurred by Employee, consistent with Employee's position with the Company and the Company's policies on the same.

6. Termination of Employment. This Agreement shall terminate automatically as of the expiration date set forth in Section 3, above, without notice by either party, unless renewed by mutual written agreement of Employee and the Company. In addition, this Agreement and Employee's employment may be terminated earlier only as follows:

6.1 Death. This Agreement and Employee's employment shall terminate upon Employee's death.

6.2 Disability. The Company may terminate this Agreement and Employee's employment, by providing written notice of such termination to Employee, if Employee shall suffer a physical or mental disability which renders Employee unable to perform the essential

functions of his job, with or without reasonable accommodation. Subject to the provisions of the Americans With Disabilities Act and applicable state law, Employee shall be presumed to be disabled if Employee is unable to substantially perform the services required of Employee hereunder for a period in excess of 60 consecutive work days or 60 work days during any 90 work day period. In such event, Employee shall be presumed to be disabled as of such 60th workday.

6.3 For Cause. The Company may terminate this Agreement and Employee's employment for "Cause" by providing written notice of such termination to Employee. For purposes of this Agreement, "Cause" shall mean: (i) Employee willfully breaches or habitually neglects the duties that Employee is required to perform under this Agreement; (ii) Employee commits an intentional act of moral turpitude that has a material detrimental effect on the reputation or business of the Company; (iii) Employee is convicted of a felony or commits any material act of dishonesty, fraud or intentional misrepresentation; (iv) Employee engages in an unauthorized disclosure or use of inside information, trade secrets or other confidential information; or (v) Employee willfully breaches a fiduciary duty, or violates any law, rule or regulation, which breach or violation results in a material adverse effect on the Company. If the Company decides to terminate Employee's employment for Cause, the Company will provide Employee with notice specifying the grounds for termination, accompanied by a brief written statement of the relevant facts supporting such grounds.

6.4 Without Cause. The Company may terminate this Agreement and Employee's employment without cause upon providing written notice of such employment termination to Employee.

6.5 Voluntary Termination Without Good Reason. Employee may voluntarily terminate this Agreement and Employee's employment with the Company without "Good Reason" as defined in Section 6.6, below, upon providing one hundred twenty (120) days written notice of such termination to the Company, provided, however, that the Company may waive any part or all of the notice period and accelerate the date of termination accordingly, in its sole and absolute discretion."

6.6 Voluntary Termination for Good Reason. Employee may terminate this Agreement and Employee's employment for "Good Reason" upon providing written notice of such employment termination to the Company. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following without Cause, unless the Company has Employee's prior written consent: (i) Employee is removed from his position specified in Section 1, above, and is not placed in a reasonably comparable or higher position; (ii) an unreasonable reduction in the duties defined in Section 1, above, provided, however, that the term Good Reason does not include a situation where duties defined in Section 1, above, are removed from Employee's responsibilities and are replaced with duties that have greater responsibility and/or authority than the duties that are removed; (iii) Employee is demoted or his annual salary is reduced or his benefits and annual compensation package is materially reduced; (iv) Employee is required to relocate outside of Los Angeles County to continue employment; or (v) Employee's employment conditions are altered to the material detriment of Employee. Voluntary termination will not be considered to be for Good Reason unless (i) Employee gives written notice of such termination to the Company within ninety (90) days of learning from an

authoritative source that the Company has acted so as to provide Good Reason for Employee to terminate this Agreement, (ii) Employee gives ninety (90) days' written notice of such termination to the Company, specifying in detail the actions that constitute Good Reason, and (iii) the Company does not cure the actions that would constitute Good Reason within ninety (90) days of its receipt of the notification.

6.7 Change in Control. The Company and/or its successor may terminate this Agreement and Employee's employment in connection with a Change in Control, as defined and provided in Section 8.4, below.

7. Notice and Effective Date of Termination.

7.1 Notice. Any termination of this Agreement and Employee's employment by the Company or by Employee during the Term of this Agreement (other than as a result of death) shall be communicated by written notice of termination to the other party hereto.

7.2 Date of Termination. The Date of Termination shall be:

- (a) If Employee's employment is terminated by Employee's Death, the date of Employee's death;
 - (b) If Employee's employment is terminated by reason of Disability, the 31st day following delivery of the notice of termination;
 - (c) If Employee's employment is voluntarily terminated by Employee without Good Reason, the 120th day following delivery of the notice of termination by Employee to the Company, unless the Company accelerates the date of termination as specified in Section 6.5, in which event the date of termination will be the accelerated date specified by the Company;
 - (d) If Employee's employment is terminated by the Company for Cause, the date on which the notice of termination is delivered by the Company to Employee;
 - (e) If Employee's employment is terminated without Cause by the Company, the date on which a notice of termination is delivered by the Company to Employee.
 - (f) If Employee's employment is terminated by Employee for Good Reason, the 91st day after the date on which a notice of termination is delivered by Employee to the Company, provided that the Company has not cured the actions that would constitute Good Reason within ninety (90) days of its receipt of the notification.
 - (g) If Employee's employment terminates by reason of a Change in Control, the date on which a notice of termination is delivered by the Company or its successor to Employee.
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8. Compensation and Benefits Upon Termination.

8.1 Death or Disability. If Employee's employment terminates pursuant to Death or Disability, Employee (or Employee's estate) shall be paid Employee's then current salary earned through the date of termination, in addition to any accrued, but unused vacation, and Employee shall be reimbursed for any business expenses incurred by Employee in accordance with Section 5, above. Employee shall be entitled to no further compensation or benefits.

8.2 Termination for Cause or Voluntary Termination Without Good Reason. If Employee's employment terminates by the Company for Cause or by Employee without Good Reason, Employee shall be paid Employee's then current salary earned through the date of termination, in addition to any accrued, but unused vacation, and Employee shall be reimbursed for any business expenses incurred by Employee in accordance with Section 5, above. Employee shall be entitled to no further compensation or benefits.

8.3 Termination Without Cause or Voluntary Termination for Good Reason. If Employee's employment terminates by the Company without Cause or by Employee with Good Reason, Employee shall be paid Employee's then current salary earned through the date of termination, in addition to any accrued but unused vacation, and Employee shall be reimbursed for any business expenses incurred by Employee in accordance with Section 5, above. Employee shall be entitled to no further compensation or benefits, provided, however, that if in connection with the termination of his employment Employee executes a "Waiver and Release Agreement" in the form attached hereto as Attachment "A," and if that "Waiver and Release Agreement" is not revoked by Employee pursuant to its terms and becomes effective and enforceable, then (i) the Company shall be obligated to pay Employee the total gross amount (the "Section 8.3(i) Amount") equal to Employee's salary for the remainder of the Term (at the annual rate payable at the time of such termination) plus an annual bonus for each of the remaining Fiscal Years in the Term equal to the highest amount of the bonus specified in Section 4.2, above, that was earned by Employee in any Fiscal Year in the Term prior to Employee's termination, less bonus amounts already paid for the Fiscal Year of termination, and (ii) the Company will, at its own expense, accelerate the vesting of all Company stock options and restricted Company stock held by the Employee, provided that such acceleration is allowed by the terms of the Restricted Stock Agreements and the Company's Incentive Award Plan. The payments and benefits specified in (i) and (ii) of the preceding sentence will not be made, the "Waiver and Release Agreement" will become null and void, and Employee will not be entitled to any payments or benefits other than those specified in the first sentence of this Section 8.3, unless and until each of the following four conditions are satisfied: (a) Employee executes the "Waiver and Release Agreement" within twenty-one (21) days after receiving it, (b) Employee returns the executed "Waiver and Release Agreement" to the Company no later than five (5) working days after executing it, (c) the "Waiver and Release Agreement" by its terms becomes effective and enforceable after the seven (7) day revocation period specified in the "Waiver and Release Agreement" has expired without revocation by Employee, and (d) Employee returns all Records (as defined in Section 10, below) to the Company no later than five (5) days after the termination of his employment. Moreover, Employee acknowledges and agrees that, if the Section 8.3(i) Amount exceeds the amount that would qualify as "separation pay" within the meaning of Treasury Regulation 1.409A-1(b)(9) (the "Separation Pay Limitation"), then the maximum amount which would not exceed the Separation Pay Limitation shall be paid in one lump-sum payment on the first Company payroll

date which follows the end of the month in which occurs the last of the events specified in (a)-(d) of the immediately preceding sentence. The balance of the Section 8.3(i) Amount shall be paid in one lump-sum payment that is payable on the Company's first payroll date no earlier than six (6) months and one (1) day after the termination of Employee's employment, and no later than seven (7) months after the termination of Employee's employment.

Notwithstanding the foregoing or any other provision of this Agreement, if any part or all of the payments or benefits specified in this Section 8.3 are subject to taxation under Section 409A of the Internal Revenue Code, as determined by the Company, with the advice of its independent accounting firm or other tax advisors, then the payments or benefits shall be subject to modification as set forth hereafter in Section 19 of this Agreement.

8.4 Termination Upon Change in Control. For purposes of this Agreement, "Change in Control" is defined to mean the earlier occurrence of one of the following events, whether by a single transaction or in a series of related transactions: (i) a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not own, directly or indirectly, outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving entity in such merger, consolidation or similar transaction or more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving entity in such merger, consolidation or similar transaction; (ii) a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its subsidiaries to an entity, of more than fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale, lease, license or other disposition; or (iii) the acquisition by any Person (other than any employee benefit plan, or related trust, sponsored or maintained by the Company) as Beneficial Owner (as 'Person' and 'Beneficial Owner' are defined in the Securities Exchange Act of 1934, as amended, or the rules and regulations thereunder), directly or indirectly, of securities of the Company representing 20 percent (20%) or more of the total voting power represented by the Company's then outstanding voting securities.

If Employee's employment is terminated by the Company or its successor without Cause during the Term of this Agreement upon or within one hundred twenty (120) days after a Change in Control, Employee shall be paid Employee's then current salary earned through the date of termination, in addition to any accrued but unused vacation, and Employee shall be reimbursed for any business expenses incurred by Employee in accordance with Section 5, above. Employee shall be entitled to no further compensation or benefits, provided, however, that that if the Company or its successor terminates Employee's employment without Cause during the Term of this Agreement upon a Change in Control or within one hundred twenty (120) days after a Change in Control, and if in connection with the termination of his employment by the Company Employee executes a "Waiver and Release Agreement" in the form attached hereto as Attachment "A, and if that "Waiver and Release Agreement" is not revoked by Employee pursuant to its terms and becomes effective and enforceable, then (i) the Company shall be obligated to pay Employee the total gross amount (the "Section 8.4(i) Amount") equal to

Employee's salary for the remainder of the Term (at the annual rate payable at the time of such termination) plus an annual bonus for each of the remaining Fiscal Years in the Term equal to the highest amount of the bonus specified in Section 4.2, above, that was earned by Employee in any Fiscal Year in the Term prior to Employee's termination, less bonus amounts already paid for the Fiscal Year of termination, and (ii) the Company will, at its own expense, accelerate the vesting of all Company stock options and restricted Company stock held by the Employee, provided that such acceleration is allowed by the terms of the Restricted Stock Agreements and the Company's Incentive Award Plan. The payments and benefits specified in (i) and (ii) of the preceding sentence will not be made, the "Waiver and Release Agreement" will become null and void, and Employee will not be entitled to any payments or benefits other than those specified in the first sentence of this Section 8.4, unless and until each of the following four conditions are satisfied: (a) Employee executes the "Waiver and Release Agreement" within twenty-one (21) days after receiving it, (b) Employee returns the executed "Waiver and Release Agreement" to the Company no later than five (5) working days after executing it, (c) the "Waiver and Release Agreement" by its terms becomes effective and enforceable after the seven (7) day revocation period specified in the "Waiver and Release Agreement" has expired without revocation by Employee, and (d) Employee returns all Records (as defined in Section 10, below) to the Company no later than five (5) working days after the termination of his employment. Moreover, Employee acknowledges and agrees that, if the Section 8.4(i) Amount exceeds the Separation Pay Limitation, then the maximum amount which would not exceed the Separation Pay Limitation shall be paid in one lump-sum payment on the first Company payroll date which follows the end of the month in which occurs the last of the events specified in (a)-(d) of the immediately preceding sentence. The balance of the Section 8.4(i) Amount shall be paid in one lump-sum payment that is payable on the Company's first payroll date no earlier than six (6) months and one (1) day after the termination of Employee's employment, and no later than seven (7) months after the termination of Employee's employment. The payments and benefits under this Section 8.4 shall be in lieu of any payments or benefits due under Section 8.3.

Notwithstanding the foregoing or any other provision of this Agreement, if any part or all of the payments or benefits specified in this Section 8.4 are subject to taxation under Section 280G or Section 409A of the Internal Revenue Code, as determined by the Company, with the advice of its independent accounting firm or other tax advisors, then the payments or benefits shall be subject to modification as set forth hereafter in Section 18 or Section 19 of this Agreement.

8.5 Single Trigger Event. The provisions for payments contained in this Section 8 may be triggered only once during the term of this Agreement, so that, for example, should Employee be terminated because of a Disability and should there thereafter be a Change in Control, then Employee would be entitled to be paid only under Section 8.1 and not under Section 8.4, as well. In addition, Employee shall not be entitled to receive severance benefits of any kind from any parent, wholly owned subsidiary or other affiliated entity of the Company if those severance benefits would be received in connection with the same event or series of events as to which the payments provided for in Section 8.3 or Section 8.4 have been triggered.

8.6 The Company shall have no further obligations to Employee as a result of the termination of Employee's employment, other than those expressly outlined in this Section 8.

9. Trade Secrets and Related Matters.

9.1 "Trade Secrets" means confidential business or technical information or trade secrets of the Company which Employee acquires while employed by the Company, whether or not conceived of, developed or prepared by Employee or at his direction and includes, without limitation:

(a) Any information or compilation of information concerning the Company's financial position, financing, purchasing, accounting, marketing, merchandising, sales, salaries, pricing, investments, costs, profits, plans for future development, employees, prospective employees, research, development, formulae, patterns, designs, drawings, inventions, plans, specifications, devices, products, procedures, processes, operations, techniques, software, computer programs or data;

(b) Any information or compilation of information concerning the identity, plans, requirements, preferences, practices and methods of doing business on specific customers, suppliers, prospective customers and prospective suppliers of the Company;

(c) Any other information or "know how" which is related to any product, process, service, business or research of the Company; and

(d) Any information which the Company acquires from another party and treats as its proprietary information or confidential information," whether or not owned or developed by the Company.

Notwithstanding the foregoing, "Trade Secrets" do not include either of the following:

(a) Information which is publicly known through no breach of this Section 9 by Employee, or which is generally employed by the trade, whether on or after the date that Employee first acquires the information; or

(b) General information or knowledge which Employee necessarily would have legitimately learned in the course of similar work elsewhere in the trade.

9.2 Acknowledgments. Employee acknowledges that:

(a) Employee's relationship with the Company will be a confidential relationship in which Employee will have access to and may create Trade Secrets.

(b) The Company uses the Trade Secrets in its business to obtain a competitive advantage over its competitors who do not know or use that information.

(c) The protection of the Trade Secrets against unauthorized disclosure or use is of critical importance in maintaining the competitive position of the Company.

9.3 Nondisclosure, etc. Employee acknowledges that disclosure of any Trade Secret about the Company by Employee would be damaging to the Company and the growth of its business. As such, Employee agrees and warrants that he will not at any time or in any manner

directly or indirectly use for his own benefit or the benefit of any other person or entity, or otherwise divulge, disclose or communicate in any fashion, to any person or entity, including, without limitation, the media or by way of the World Wide Web, any Trade Secret of the Company that has been learned or discovered by Employee while performing or preparing to perform his duties for the Company, without permission of the Company's Chief Executive Officer or unless compelled to do so by applicable law.

9.4 Liability. Employee acknowledges that each of the restrictions contained in this Agreement relating to this Paragraph 9 is reasonable and necessary in order to protect legitimate interests of the Company and that any violation thereof would cause irreparable injury to the Company. Employee acknowledges and agrees that, in the event of any violation thereof, the Company shall be authorized and entitled to obtain preliminary and permanent injunctive relief as well as an equitable accounting of all profits or benefits arising out of such violation and any damages for breach of this Agreement which may be applicable. The aforesaid rights and remedies shall be independent, severable and cumulative and shall be in addition to any other rights or remedies to which the Company may be entitled under this Agreement or applicable law.

9.5 Non-Competition. Employee agrees that, during the period of Employee's employment with the Company (a) he will not, directly or indirectly, either as an employee or in any other capacity, engage or participate in any business that is in competition in any manner whatsoever with the Company, including, but not limited to, the brokering of transactions to competitors of the Company, and (b) he will not engage in any activity that presents a conflict of interest with his duties and responsibilities to the Company.

9.6 Non-Solicitation of Employees. Employee shall not, during the term of this Agreement and for a period of one (1) year thereafter, for himself or on behalf of any other person, partnership, corporation or entity, directly or indirectly, or by action in concert with others, solicit, induce, suggest or encourage any person known to him to be an employee of the Company or any affiliate of the Company to terminate his or her employment or other contractual relationship with the Company or any of its affiliates.

9.7 Immunity Provisions. Employee and the Company expressly recognize the immunity provisions of the Defense of Trade Secrets Act that provide that (i) an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, (ii) an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal, and (iii) an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal, and does not disclose the trade secret, except pursuant to court order.

9.8 Severability. The parties agree that the above restrictions contained in this Section 9 shall be completely severable and independent, and any invalidity or unenforceability

of any one or more of such restrictions, or portions of such restrictions, shall not render invalid or unenforceable any one or more of the other restrictions or portions of restrictions.

10. Records.

10.1 Records: Definition. The word "Records" shall be given its broadest possible interpretation and shall include, without limitation, files, accounts, records, log books, documents, drawings, sketches, designs, diagrams, models, plans, blueprints, specifications, manuals, books, forms, notes, reports, memoranda, studies, surveys, software, flow charts, data, computer programs, listing of source code, calculations, recordings, catalogues, compilations of information, correspondence, confidential data of customers and employees, and all copies, abstracts or summaries of the foregoing in any storage medium (including, without limitation, electronic form), as well as instruments, tools, storage devices, disks, equipment and all other physical items related to the business of the Company (other than merely personal items of a general professional nature), whether of a public nature or not, and whether prepared by Employee or not.

10.2 Ownership. All Records are and shall remain the exclusive property of the Company.

10.3 Return of Records. At the termination of this Agreement for any reason, Employee shall promptly return to the Company all records in Employee's possession or over which Employee has control.

11. Ownership of Material and Ideas. Employee agrees that all material, ideas, and inventions pertaining to the business of the Company, any of its affiliates or of any client of the Company, including but not limited to, all patents and copyrights thereon and renewals and extensions thereof, trademarks and trade names, and the names, addresses and telephone numbers of customers, distributors and sales representatives of the Company, belong solely to the Company. Employee hereby assigns any rights he may have to any such property to the Company, and agrees to execute and deliver any documents which evidence such assignment.

12. Services Unique. It is agreed that the services to be rendered by Employee hereunder are of a special, unique, unusual, extraordinary and intellectual character which gives them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law and that a breach by Employee of any of the provisions contained in this Agreement will cause the Company irreparable injury and damage. Employee expressly agrees that the Company shall be entitled to injunctive or other equitable relief to prevent such a breach. Resort to any such equitable relief shall not be construed as a waiver of any of the rights or remedies which the Company may have against Employee for damages or otherwise.

13. Key Man Life Insurance. During the term of this Agreement, the Company may at any time effect insurance on Employee's life and/or health in such amounts and in such form as the Company may in its sole discretion decide. Employee shall not have any interest in such insurance, and shall not have the right to designate beneficiaries, but shall, if the Company requests, submit to such medical examinations, supply such information and execute such

documents as may be required in connection with, or so as to enable the Company to effect, such insurance.

14. Resignations. Employee agrees that, upon termination of employment for any reason, Employee will submit his resignations from all offices and directorships with the Company and its related entities.

15. Indemnity. During the time of Employee's employment and after the termination of Employee's employment (for any reason and under any circumstances), the Company shall indemnify Employee in accordance with the Company's By-Laws and applicable law.

16. Notices. Any and all notices, demands or other communications required or desired to be given hereunder by any party to the other party shall be in writing and shall be deemed to have been duly given or made when (i) received by the other party by personal delivery or by United States Mail, certified or registered, postage prepaid, return receipt requested, (ii) transmitted by facsimile, or (iii) mailed by overnight mail, addressed as follows:

To the Company:

SKECHERS USA, INC.
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266
Attn: Chief Executive Officer

To Employee:

David Weinberg

(at the address set forth below his signature)

Either party may change his or its address for the purpose of receiving notices, demands and other communications as herein provided by a written notice given in the manner aforesaid to the other party.

17. Withholding of Taxes. All payments required to be made by the Company to Employee under this Agreement shall be subject to the withholding and deduction of such amounts as required by law.

18. Excise Tax Provision. Notwithstanding anything elsewhere in this Agreement to the contrary, if any of the payments or benefits provided for in this Agreement, together with any other payments or benefits which Employee has the right to receive from the Company (or its affiliated companies), would constitute a "parachute payment" as defined in Section 280G(h)(2) of the Code, the parties agree that the payments or benefits provided to Employee pursuant to this Agreement shall be reduced so that the present value of the total amount received by Employee that would constitute a "parachute payment" will be one dollar less than three times Employee's base amount (as defined in Section 280G of the Code) and so that no portion of the payment or benefits received by Employee would be subject to the excise tax imposed by Section 4999 of the Code. Any such reduction shall be applied first to any and all payments and benefits that are not considered "nonqualified deferred compensation" for purposes of Section 409A of the Code (in such order and manner as Employee in his sole discretion may determine). After any and all such payments and benefits have been eliminated, any reduction of payments

and benefits that are considered “nonqualified deferred compensation” shall be made in reverse chronological order of their payment dates (determined without regard to any acceleration of payment as a result of any Change of Control or other similar event).

19. Internal Revenue Code Section 409A Limitation. It is the intention of the Company and Employee that any bonus, severance and other amounts that may become payable to Employee under this Agreement either be exempt from, or otherwise comply with, Section 409A of the Code (“Section 409A”). Each payment and each installment of any bonus, severance or other payment provided to Employee under this Agreement or otherwise shall be treated as a separate payment for purposes of application of Section 409A. Notwithstanding any other term or provision of this Agreement, to the extent that any provision of this Agreement is determined by the Company with the advice of its independent accounting firm or other tax advisors to be subject to and not in compliance with Section 409A, including, without limitation, the definition of “change in control” or “disability,” the timing of commencement and completion of severance and/or other benefit payments to Employee hereunder, or the amount of any such payments, such provisions shall be interpreted in the manner required to comply with Section 409A. The Company and Employee acknowledge and agree that such interpretation could, among other matters, (i) limit the circumstances or events that constitute a “change in control” or “disability,” (ii) delay for a period of six (6) months or more, or otherwise modify the commencement of severance and/or other benefit payments, (iii) modify the completion date of severance and/or other benefit payments, and/or (iv) reduce the amount of any such payments.

Payments determined to be “nonqualified deferred compensation” payable upon Employee’s separation from service from the Company at a time that Employee is determined to be a “specified employee” (as defined and determined under Section 409A) shall be made no earlier than (a) the first (1st) day of the seventh (7th) complete calendar month following such separation from service, or (b) Employee’s death, consistent with the provisions of Section 409A. Any payment delayed by reason of the prior sentence shall be paid out in a single lump sum at the end of such required delay period in order to catch up to the original payment schedule.

All expense reimbursement or in-kind benefits subject to Section 409A provided under this Agreement or under any Company program or policy, shall be subject to the following rules: (i) the amount of expenses eligible for reimbursement or in-kind benefits provided during one calendar year may not affect the benefits provided during any other calendar year; (ii) reimbursements shall be paid no later than the end of the calendar year following the calendar year in which Employee incurs such expenses, and Employee shall take all actions necessary to claim all such reimbursements on a timely basis to permit the Company to make all such reimbursement payments prior to the end of said period, and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

It is the intent of the parties that the provisions of this Agreement and all other plans and programs sponsored by the Company be interpreted to comply in all respects with Section 409A; provided, however, the Company shall have no liability to Employee, or any successor or beneficiary thereof, in the event taxes, penalties or excise taxes may ultimately be determined to be applicable to any payment or benefit received by Employee or any successor or beneficiary thereof.

The Company and Employee further acknowledge and agree that if, in the judgment of the Company and its independent accounting firm or other tax advisors, amendment of this Agreement is necessary to comply with Section 409A, the Company and Employee will negotiate reasonably and in good faith to amend the terms of this Agreement to the extent necessary so that it complies (with the most limited possible economic effect on the Company and Employee) with Section 409A.

20. Applicable Law. This Agreement shall, in all respects, be governed by the laws of the State of California applicable to agreements executed and to be wholly performed within the State of California.

21. Severability. In the event that any of the provisions, or portions thereof, of this Agreement are held to be unenforceable or invalid by any court of competent jurisdiction, the validity and enforceability of the remaining provisions or portions thereof shall not be affected thereby.

22. Mediation. Prior to engaging in any legal or equitable litigation or other dispute resolution process regarding any of the terms and conditions of this Agreement between the parties, or concerning the subject matter of the Agreement between the parties, each party specifically agrees to engage in good faith in a mediation process at the expense of the Company, complying with the procedures provided for under California Evidence Code Sections 1115 through and including 1125, as then currently in effect. The parties further and specifically agree to use their best efforts to reach a mutually agreeable resolution of the matter. The parties understand and specifically agree that should either party to this Agreement refuse to participate in mediation for any reason, the other party will be entitled to seek a court order to enforce this provision in any court of appropriate jurisdiction requiring the dissenting party to attend, participate, and to make a good faith effort in the mediation process to reach a mutually agreeable resolution of the matter.

23. Arbitration. To the extent not resolved through mediation as provided in Section 22, and except for claims that may not be included in this arbitration agreement as a matter of law (e.g., unemployment and workers' compensation claims), all claims, disputes and other matters in question arising out of or relating to this Agreement, the Employee's employment with the Company, any termination of the Employee's employment, the enforcement or interpretation of this Agreement, or because of an alleged breach, default, or misrepresentation in connection with any of the provisions of this Agreement, including (without limitation) any common law claims and any state or federal statutory claims, both claims the Employee may have against the Company (and claims against the Company's current, former or future parents, subsidiaries, affiliates, directors, shareholders, officers, employees, members, successors, agents and assigns) and claims the Company may have against the Employee, shall be resolved by binding arbitration in Los Angeles, California, before a sole, neutral arbitrator (the "Arbitrator") mutually selected by the parties from Judicial Arbitration and Mediation Services ("JAMS") in accordance with the Employment Arbitration Rules and Procedures ("Rules") of JAMS then in effect. The Rules may be found on JAMS' website at www.jamsadr.com. The parties acknowledge and agree that that the arbitration and this agreement to arbitrate will be governed by the Federal Arbitration Act, and that the Company's business and the nature of the Employee's employment affects interstate commerce. Final resolution of any dispute through

arbitration may include any remedy or relief that the Arbitrator deems just and equitable, including any and all remedies provided by common law and applicable state or federal statutes, and any and all remedies that would otherwise be available to the Employee and the Company in a court action. The parties will be permitted to engage in sufficient discovery to allow the parties to gather necessary evidence to prove their claims and present their defenses. The prevailing party shall be entitled to such reasonable attorneys' fees, costs and expenses as may be fixed by the arbitrator, including, without limitation, the costs and fees charged by the arbitrator and JAMS, in accordance with the provisions of applicable law. However, if either party prevails on a statutory claim that affords attorneys' fees to the prevailing party, the arbitrator may award reasonable fees to the prevailing party in accordance with applicable law. Subject to the arbitrator's ruling, the Company shall pay filing fees related to the arbitration and the arbitrator's fees and costs. At the conclusion of the arbitration, the Arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the Arbitrator's award or decision is based. The parties expressly waive the right to a jury trial, and agree that the arbitrator's award shall be final and binding on both parties, subject to any appeal rights provided by law, and may be enforced by any court of competent jurisdiction.

24. Modifications or Amendments. No amendment, change or modification of this Agreement shall be valid unless in writing and signed by each of the parties hereto. Further, any amendment, change or modification of this Agreement must be approved in advance by the Board of Directors of the Company and reflected in the minutes of such Board's meetings or in an action by unanimous written consent.

25. Successors and Assigns. All of the terms and provisions contained herein shall inure to the benefit of and shall be binding upon the parties hereto and their respective heirs, personal representatives, successors and assigns. In view of the personal nature of the services to be performed under this Agreement by Employee, Employee will not have the right to assign, transfer or delegate any of his rights, obligations or benefits under this Agreement.

26. Entire Agreement. Employee acknowledges and agrees that the Company has not made any representation with respect to the subject matter of this Agreement or any representation inducing the execution of this Agreement except such representations as are specifically set forth herein, and Employee expressly acknowledges that he has relied on his own judgment in entering into this Agreement. Employee further agrees that any representations that may have heretofore been made by the Company to Employee are of no effect and that Employee has not relied thereon in connection with his dealings with the Company. With the exception of Employee's Restricted Stock Agreements and the Company's Incentive Award Plan set forth in paragraph 4.3, which remain in full force and effect, and any such grants made pursuant to the Company's Incentive Award Plan in the future, all of which are incorporated by reference in this Agreement, this Agreement constitutes the entire Agreement between the Company and Employee and fully supersedes any and all prior agreements or understandings between them pertaining to the subject matter of this Agreement. This Agreement may not be altered, modified, amended or changed, in whole or in part, except as specified in Section 24, above.

27. No Waiver. Any failure by either party on any occasion to enforce or require adherence to any term or condition of this Agreement shall not constitute a waiver of any such

term or condition, and shall not prevent that party from insisting on the strict adherence to and performance of such term or condition on any other or future occasion.

28. Drafting. This Agreement shall be construed as if each party participated equally in its negotiation and drafting, and each party agrees that any ambiguity contained in any provision of this Agreement shall not be construed against either party to this Agreement by virtue of that party's role in the negotiation or drafting of this Agreement.

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

30. Counsel. Employee acknowledges that he is free to seek advice from independent counsel with respect to this Agreement, and that the Company has urged him to seek such advice. Employee further acknowledges that he either has obtained such advice or, after carefully reviewing this Agreement, voluntarily has decided to forego such advice.

31. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but both of which together will constitute one and the same instrument.

32. Survival of Certain Provisions. Upon the termination of this Agreement and Employee's employment, the obligations of the Company and Employee hereunder shall cease, except to the extent of the Company's obligation, if any, to provide payments and benefits to Employee following termination of employment, as specified in Section 8 (and Attachment "A"), and provided that Sections 5, 9.1, 9.2, 9.3, 9.4, 9.6, 9.7, 10, 11, 12, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29 and 30 of this Agreement shall also survive the termination hereof.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

EMPLOYEE:

/s/ David Weinberg
David Weinberg

228 Manhattan Beach Blvd.
Manhattan Beach, CA 90266
Address

COMPANY:

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

By: /s/ Robert Greenberg

Robert Greenberg
Name

Chief Executive Officer
Title

ATTACHMENT "A"

WAIVER AND RELEASE AGREEMENT

WAIVER AND RELEASE AGREEMENT

This Waiver and Release Agreement (the "Waiver Agreement") is entered into by and between DAVID WEINBERG ("Employee") and SKECHERS U.S.A., INC. (the "Company").

RECITALS

A. Employee and the Company have entered into an Employment Agreement dated as of January 1, 2018 (the "Agreement").

B. A condition precedent to certain of the Company's obligations under [Section 8.3 or Section 8.4, as applicable] of the Agreement is the execution of this Waiver Agreement by Employee.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties, intending to be legally bound, agree and covenant as follows:

GENERAL RELEASE

In consideration for the payments and benefits specified in Section [Section 8.3 or Section 8.4, as applicable] of the Agreement, Employee agrees unconditionally and forever to release and discharge the Company, and its parents, subsidiaries, affiliates and successors-in-interest, and all of their respective officers, directors, managers, employees, members, shareholders, representatives, attorneys, insurers, reinsurers, agents and assigns, from any and all claims, actions, causes of action, demands, rights or damages of any kind or nature whatsoever, whether known or unknown, foreseen or unforeseen, which Employee ever had, now has or may claim to have against any or all of them for, upon or by reason of any fact, matter, injury, incident, circumstance, cause or thing whatsoever, from the beginning of time up to and including the date of Employee's execution of this Waiver Agreement, including, without limitation, any claim or obligation arising from or in any way related to Employee's employment with the Company, the termination of that employment or an alleged breach of the Agreement.

This General Release specifically includes, but is not limited to, any claim for discrimination or violation of any statutes, rules, regulations or ordinances, whether federal, state or local, including, but not limited to, Title VII of the Civil Rights Act, the Age Discrimination in Employment Act, the Reconstruction Era Civil Rights Act, the California Fair Employment and Housing Act, the California Labor Code and the California Business and Professions Code, the California constitution, and any claims at common law.

Employee further knowingly and willingly agrees to waive the provisions and protections of Section 1542 of the California Civil Code, which reads:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

This General Release covers not only any and all claims by Employee against the Company and the other persons and entities released in his General Release, but, to the extent permitted by applicable law, it also covers any claim for monetary recovery or reinstatement asserted on Employee's behalf by any other person or entity, including, without limitation, any government agency, and Employee expressly waives the right to any such monetary recovery or reinstatement.

This General Release does not include any claims that cannot lawfully be waived or released by Employee.

REPRESENTATIONS OF EMPLOYEE

Employee represents and agrees that, prior to his execution of this Waiver Agreement, Employee has been informed by the Company of his right to consult with legal counsel regarding the terms of this Waiver Agreement, that Employee has had the opportunity to discuss the terms of this Waiver Agreement with legal counsel of Employee's choosing, and that the Company by this writing is encouraging Employee to seek this advice of legal counsel.

Employee affirms that no promise or inducement was made to cause Employee to enter into this Waiver Agreement other than the inducements provided in this Waiver Agreement and in the Agreement. Employee further confirms that Employee has not relied upon any statement or representation by anyone, other than what is in this Waiver Agreement and the Agreement, as a basis for Employee's agreement to execute this Waiver Agreement.

MISCELLANEOUS

Except for the Agreement, this Waiver Agreement sets forth the entire agreement between Employee and the Company regarding the subject matter hereof, and shall be binding on both party's heirs, representatives and successors. This Waiver Agreement shall be construed under the laws of the State of California, both procedurally and substantively. If any portion of this Waiver Agreement is found to be illegal or unenforceable, such action shall not affect the validity or enforceability of the remaining paragraphs or subparagraphs of this Waiver Agreement.

Employee and the Company acknowledge and agree that (i) Employee has twenty-one (21) days from his receipt of this Waiver Agreement in which to consider its terms (including, without limitation, Employee's release and waiver of any and all claims under the Age Discrimination in Employment Act) before executing it, although Employee may execute this Waiver Agreement earlier if he chooses (**but not earlier than his employment termination date**), (ii) Employee will have seven (7) days after his execution of this Waiver Agreement in which to revoke this Waiver Agreement (including, without limitation, Employee's release and waiver of any and all claims under the Age Discrimination in Employment Act), in which event a written notice of revocation must be received by the Chief Executive Officer of the Company before the expiration of this seven (7) day revocation period, and (iii) this Waiver Agreement will not become effective and enforceable until this seven (7) day period has expired without revocation by Employee.

Employee and the Company further acknowledge and agree that the payments and benefits specified in subsections (i) and (ii) of [Section 8.3 or Section 8.4, as applicable] of the Agreement will not be made, the Waiver Agreement will become null and void, and Employee will not be entitled to any payments or benefits other than those specified in the first sentence of [Section 8.3 or Section 8.4, as applicable] of the Agreement, unless and until each of the following four conditions are satisfied: (a) Employee executes the Waiver Agreement within twenty-one (21) days after receiving it, (b) Employee returns the executed Waiver Agreement to the Company no later than five (5) working days after executing it, (c) the Waiver Agreement by its terms becomes effective and enforceable after the seven (7) day revocation period specified in the preceding paragraph has expired without revocation by Employee, and (d) Employee returns all Records (as defined in Section 10 of the Agreement) to the Company no later than five (5) days after the termination of his employment. Moreover, Employee acknowledges and agrees that, if the combined payments specified in subsection (i) of [Section 8.3 or Section 8.4, as applicable] of the Agreement exceed the Separation Pay Limitation as that term is defined in the Agreement, then the amounts payable pursuant to [Section 8.3 or Section 8.4, as applicable] shall be paid in the amounts and at the times specified in [Section 8.3 or Section 8.4, as applicable].

The undersigned agree to the terms of this Waiver Agreement and voluntarily enter into it with the intent to be bound hereby.

EMPLOYEE:

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

David Weinberg

By: _____

Name

Dated: _____

Title

Dated: _____

CERTIFICATION

I, Robert Greenberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended March 31, 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: May 4, 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 March 31, 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: May 4, 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 March 31, 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)
May 4, 2018

/s/ John Vandemore

John Vandemore
Chief Financial Officer
(Principal Financial and Accounting Officer)
May 4, 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.