

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2020

or

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

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)

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

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, par value \$0.001 per share	SKX	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes No

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

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

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

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

As of October 30, 2020, 135,584,212 shares of the registrant's Class A Common Stock, \$0.001 par value per share, were outstanding.

As of October 30, 2020, 21,570,477 shares of the registrant's Class B Common Stock, \$0.001 par value per share, were outstanding.

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

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,294,222	\$ 824,876
Short-term investments	106,767	112,037
Trade accounts receivable, less allowances of \$41,750 in 2020 and \$24,106 in 2019	708,947	645,303
Other receivables	74,727	53,932
Total receivables	783,674	699,235
Inventories	1,053,360	1,069,863
Prepaid expenses and other current assets	147,607	113,580
Total current assets	3,385,630	2,819,591
Property, plant and equipment, net	870,162	738,925
Operating lease right-of-use assets	1,106,047	1,073,660
Deferred tax assets	60,934	49,088
Long-term investments	98,698	94,589
Goodwill	93,497	71,412
Other assets, net	96,426	45,678
Total non-current assets	2,325,764	2,073,352
TOTAL ASSETS	\$ 5,711,394	\$ 4,892,943
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of long-term borrowings	\$ 106,702	\$ 66,234
Short-term borrowings	21,720	5,789
Accounts payable	742,226	764,844
Operating lease liabilities	196,760	191,129
Accrued expenses	193,032	210,235
Total current liabilities	1,260,440	1,238,231
Long-term borrowings, excluding current installments	683,611	49,183
Long-term operating lease liabilities	1,004,584	966,011
Deferred tax liabilities	11,926	322
Other long-term liabilities	109,722	103,089
Total non-current liabilities	1,809,843	1,118,605
Total liabilities	3,070,283	2,356,836
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; 132,912 and 131,071 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	133	131
Class B common stock, \$0.001 par value; 75,000 shares authorized; 21,570 and 22,408 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	22	22
Additional paid-in capital	359,678	306,669
Accumulated other comprehensive loss	(40,549)	(29,993)
Retained earnings	2,083,118	2,037,836
Skechers U.S.A., Inc. equity	2,402,402	2,314,665
Non-controlling interests	238,709	221,442
Total stockholders' equity	2,641,111	2,536,107
TOTAL LIABILITIES AND EQUITY	\$ 5,711,394	\$ 4,892,943

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)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Sales	\$ 1,300,886	\$ 1,353,998	\$ 3,272,703	\$ 3,889,319
Cost of sales	675,765	700,934	1,731,349	2,035,911
Gross profit	625,121	653,064	1,541,354	1,853,408
Royalty income	3,216	6,285	11,061	17,827
	<u>628,337</u>	<u>659,349</u>	<u>1,552,415</u>	<u>1,871,235</u>
Operating expenses:				
Selling	85,926	97,516	220,222	281,237
General and administrative	450,285	414,417	1,256,228	1,165,637
	<u>536,211</u>	<u>511,933</u>	<u>1,476,450</u>	<u>1,446,874</u>
Earnings from operations	92,126	147,416	75,965	424,361
Other income / (expense):				
Interest income	1,884	3,290	5,739	9,500
Interest expense	(4,643)	(2,012)	(11,428)	(5,194)
Other, net	7,726	(4,194)	15,882	(8,628)
Total other income / (expense)	4,967	(2,916)	10,193	(4,322)
Earnings before income tax expense	97,093	144,500	86,158	420,039
Income tax expense	14,983	22,766	18,104	75,288
Net earnings	82,110	121,734	68,054	344,751
Net earnings attributable to non-controlling interests	17,832	18,644	22,771	57,723
Net earnings attributable to Skechers U.S.A., Inc.	<u>\$ 64,278</u>	<u>\$ 103,090</u>	<u>\$ 45,283</u>	<u>\$ 287,028</u>
Net earnings per share attributable to Skechers U.S.A., Inc.:				
Basic	<u>\$ 0.42</u>	<u>\$ 0.67</u>	<u>\$ 0.29</u>	<u>\$ 1.87</u>
Diluted	<u>\$ 0.41</u>	<u>\$ 0.67</u>	<u>\$ 0.29</u>	<u>\$ 1.86</u>
Weighted average shares used in calculating net earnings per share attributable to Skechers U.S.A., Inc.:				
Basic	<u>154,462</u>	<u>153,298</u>	<u>154,061</u>	<u>153,396</u>
Diluted	<u>154,980</u>	<u>153,978</u>	<u>154,707</u>	<u>154,021</u>

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

(Unaudited)
(In thousands)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net earnings	\$ 82,110	\$ 121,734	\$ 68,054	\$ 344,751
Other comprehensive income, net of tax:				
Gain / (loss) on foreign currency translation adjustment	112,814	(98,416)	(11,215)	(92,059)
Comprehensive income	194,924	23,318	56,839	252,692
Comprehensive income / (loss) attributable to non-controlling interests	46,956	(7,700)	22,112	31,530
Comprehensive income attributable to Skechers U.S.A., Inc.	<u>\$ 147,968</u>	<u>\$ 31,018</u>	<u>\$ 34,727</u>	<u>\$ 221,162</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	SHARES		AMOUNT		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	SKECHERS U.S.A., INC. EQUITY	NON CONTROLLING INTEREST	TOTAL STOCKHOLDERS' EQUITY
	CLASS A COMMON STOCK	CLASS B COMMON STOCK	CLASS A COMMON STOCK	CLASS B COMMON STOCK						
Balance at June 30, 2020	132,882	21,570	\$ 133	\$ 22	\$ 329,958	\$ (124,238)	\$ 2,018,840	\$ 2,224,715	\$ 212,429	\$ 2,437,144
Net earnings	—	—	—	—	—	—	64,278	64,278	17,832	82,110
Foreign currency translation adjustment	—	—	—	—	—	83,689	—	83,689	29,125	112,814
Distribution to non-controlling interest of consolidated entity	—	—	—	—	—	—	—	—	(20,788)	(20,788)
Net unrealized loss on derivative contract	—	—	—	—	—	—	—	—	111	111
Stock compensation expense	—	—	—	—	29,720	—	—	29,720	—	29,720
Shares issued under the Incentive Award Plan	30	—	—	—	—	—	—	—	—	—
Conversion of Class B common stock into Class A common stock	—	—	—	—	—	—	—	—	—	—
Balance at September 30, 2020	<u>132,912</u>	<u>21,570</u>	<u>\$ 133</u>	<u>\$ 22</u>	<u>\$ 359,678</u>	<u>\$ (40,549)</u>	<u>\$ 2,083,118</u>	<u>\$ 2,402,402</u>	<u>\$ 238,709</u>	<u>\$ 2,641,111</u>
Balance at June 30, 2019	130,275	23,016	\$ 130	\$ 23	\$ 282,822	\$ (25,282)	\$ 1,875,214	\$ 2,132,907	\$ 190,766	\$ 2,323,673
Net earnings	—	—	—	—	—	—	103,090	103,090	18,644	121,734
Foreign currency translation adjustment	—	—	—	—	—	(72,072)	—	(72,072)	(26,344)	(98,416)
Distribution to non-controlling interest of consolidated entity	—	—	—	—	—	—	—	—	(16,115)	(16,115)
Stock compensation expense	—	—	—	—	10,738	—	—	10,738	—	10,738
Shares issued under the Incentive Award Plan	29	—	—	—	—	—	—	—	—	—
Shares redeemed for employee tax withholdings	(5)	—	—	—	(161)	—	—	(161)	—	(161)
Conversion of Class B common stock into Class A common stock	112	(112)	—	—	—	—	—	—	—	—
Balance at September 30, 2019	<u>130,411</u>	<u>22,904</u>	<u>\$ 130</u>	<u>\$ 23</u>	<u>\$ 293,399</u>	<u>\$ (97,354)</u>	<u>\$ 1,978,304</u>	<u>\$ 2,174,502</u>	<u>\$ 166,951</u>	<u>\$ 2,341,453</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	SHARES		AMOUNT		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	SKECHERS U.S.A., INC. EQUITY	NON CONTROLLING INTERESTS	TOTAL STOCKHOLDERS' EQUITY
	CLASS A COMMON STOCK	CLASS B COMMON STOCK	CLASS A COMMON STOCK	CLASS B COMMON STOCK						
Balance at December 31, 2019	131,071	22,408	\$ 131	\$ 22	\$ 306,669	\$ (29,993)	\$ 2,037,835	\$ 2,314,664	\$ 221,442	\$ 2,536,107
Net earnings	—	—	—	—	—	—	45,283	45,283	22,771	68,054
Foreign currency translation adjustment	—	—	—	—	—	(10,556)	—	(10,556)	(659)	(11,215)
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	(51,842)	(51,842)
Non-controlling interests of acquired businesses	—	—	—	—	—	—	—	—	49,045	49,045
Net unrealized loss on derivative contract	—	—	—	—	—	—	—	—	(2,048)	(2,048)
Stock compensation expense	—	—	—	—	54,983	—	—	54,983	—	54,983
Proceeds from issuance of common stock under the employee stock purchase plan	138	—	1	—	3,686	—	—	3,687	—	3,687
Shares issued under the Incentive Award Plan	1,036	—	1	—	(1)	—	—	—	—	—
Shares redeemed for employee tax withholdings	(171)	—	—	—	(5,659)	—	—	(5,659)	—	(5,659)
Conversion of Class B common stock into Class A common stock	838	(838)	—	—	—	—	—	—	—	—
Balance at September 30, 2020	<u>132,912</u>	<u>21,570</u>	<u>\$ 133</u>	<u>\$ 22</u>	<u>\$ 359,678</u>	<u>\$ (40,549)</u>	<u>\$ 2,083,118</u>	<u>\$ 2,402,402</u>	<u>\$ 238,709</u>	<u>\$ 2,641,111</u>
Balance at December 31, 2018	129,525	23,983	\$ 129	\$ 24	\$ 375,017	\$ (31,488)	\$ 1,691,276	\$ 2,034,958	\$ 154,317	\$ 2,189,275
Net earnings	—	—	—	—	—	—	287,028	287,028	57,723	344,751
Foreign currency translation adjustment	—	—	—	—	—	(65,866)	—	(65,866)	(26,193)	(92,059)
Contribution from noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	30,341	30,341
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	(37,608)	(37,608)
Acquisition of minority interest in India joint-venture	—	—	—	—	(71,265)	—	—	(71,265)	(11,629)	(82,894)
Stock compensation expense	—	—	—	—	30,234	—	—	30,234	—	30,234
Proceeds from issuance of common stock under the employee stock purchase plan	134	—	—	—	3,177	—	—	3,177	—	3,177
Shares issued under the Incentive Award Plan	1,065	—	1	—	(1)	—	—	—	—	—
Shares redeemed for employee tax withholdings	(423)	—	—	—	(13,745)	—	—	(13,745)	—	(13,745)
Conversion of Class B common stock into Class A common stock	1,079	(1,079)	1	(1)	—	—	—	—	—	—
Repurchases of common stock	(969)	—	(1)	—	(30,018)	—	—	(30,019)	—	(30,019)
Balance at September 30, 2019	<u>130,411</u>	<u>22,904</u>	<u>\$ 130</u>	<u>\$ 23</u>	<u>\$ 293,399</u>	<u>\$ (97,354)</u>	<u>\$ 1,978,304</u>	<u>\$ 2,174,502</u>	<u>\$ 166,951</u>	<u>\$ 2,341,453</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net earnings	\$ 68,054	\$ 344,751
Adjustment to reconcile net earnings to net cash from operating activities:		
Depreciation and amortization	105,752	80,731
Provision for bad debts and returns	11,673	20,367
Share based compensation	54,983	30,234
Deferred income taxes	(17,861)	(11,224)
Net settlement gain	(13,877)	—
Other items, net	—	(223)
Net foreign currency adjustments	(2,523)	7,769
Changes in operating assets and liabilities:		
Receivables	(103,895)	(143,266)
Inventories	23,629	1,533
Other assets	(87,058)	(47,112)
Accounts payable	(22,889)	48,317
Other liabilities	41,008	17,385
Net cash provided by operating activities	<u>56,996</u>	<u>349,262</u>
Cash flows from investing activities:		
Capital expenditures	(213,216)	(174,663)
Acquisitions, net of cash acquired	—	(100,658)
Proceeds from sale of property, plant and equipment	—	5,547
Purchases of investments	(131,307)	(151,594)
Proceeds from sales and maturities of investments	132,469	147,772
Net cash used in investing activities	<u>(212,054)</u>	<u>(273,596)</u>
Cash flows from financing activities:		
Net proceeds from the issuances of Class A common stock through the employee stock purchase plan	3,687	3,177
Repayments on long-term borrowings	(2,500)	(3,456)
Proceeds from long-term borrowings	677,788	17,941
Proceeds from short-term borrowings	15,931	9,048
Payments for taxes related to net share settlement of equity awards	(5,659)	(13,745)
Repurchase of Class A common stock	—	(30,019)
Cash used for purchase of non-controlling interest	—	(82,894)
Distributions to non-controlling interests	(51,842)	(37,608)
Net cash provided by (used in) financing activities	<u>637,405</u>	<u>(137,557)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(13,001)</u>	<u>13,659</u>
Net change in cash and cash equivalents	469,346	(48,232)
Cash and cash equivalents at beginning of the period	824,876	872,237
Cash and cash equivalents at end of the period	<u>\$ 1,294,222</u>	<u>\$ 824,004</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 11,240	\$ 5,097
Income taxes, net	39,542	92,855
Non-cash transactions:		
Land and other assets contribution from non-controlling interest	—	30,341
Note payable contribution from non-controlling interest	—	2,150
Purchase price adjustment for Manhattan SKMX, S. de R.L. de C.V.	49,045	—

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020 and 2019
(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, 2019.

Effects of the COVID-19 Pandemic on the Company’s Business

In March 2020, the Company temporarily closed its stores around the world and temporarily furloughed a meaningful portion of its hourly employees. The Company began reopening its stores in April 2020, and as of September 30, 2020, all but a few of the Company owned retail stores have reopened. The Company continues to monitor and react to the COVID-19 pandemic, including conforming to local governments and global health organizations’ guidance, implementing global travel restrictions, and implementing “work from home” measures for many of its employees. The Company is actively monitoring and assessing the rapidly emerging government policies and economic stimulus responses to the COVID-19 pandemic around the world.

Although the Company has reopened nearly all of its worldwide retail stores, the economic impact of the COVID-19 pandemic continues to negatively affect the Company’s results of operations. Many of the reopened retail stores continue to have temporarily reduced operating hours and less foot traffic, which has resulted in lower sales. Additionally, the reopening of stores and other offices required the Company to implement safety protocols, facilitate social distancing, enhance cleaning and sanitation activities, and provide masks and gloves to all employees. These safety processes and procedures have increased our costs to operate for the foreseeable future. Given the unprecedented impact the COVID-19 pandemic has had, the Company is unable to forecast consumer demand and store productivity. Whether and how quickly customers may resume shopping, and the effect of the pandemic on consumer behavior and spending patterns remains highly uncertain. The Company expects customer demand to be suppressed in the near term. In addition, it is possible that there will be an increase in the number of COVID-19 cases in the future, which could require the Company’s stores to close again and negatively impact the Company’s sales.

As the COVID-19 pandemic is complex and rapidly evolving, the Company’s plans as described above may change. The Company expects that the ongoing impact of the COVID-19 pandemic and the resulting economic disruption will have a material adverse effect on its consolidated results of operations, financial position, and cash flows throughout the remainder of fiscal year 2020, and beyond fiscal year 2020.

Inventories

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

Fair Value of Financial Instruments

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities. The Company’s Level 1 non-derivative investments primarily include money market funds and U.S. Treasury securities.

- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company’s Level 2 non-derivative investments primarily include corporate notes and bonds, asset-backed securities, U.S. Agency securities, and actively traded mutual funds.
- Level 3 – Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability. The Company currently does not have any Level 3 assets or liabilities.

The carrying amount of the Company’s financial instruments, which principally include cash and cash equivalents, short-term investments, accounts receivable, long-term investments, accounts payable and accrued expenses approximates fair value because of the relatively short maturity of such instruments. The carrying amount of the Company’s short-term and long-term borrowings, which are considered Level 2 liabilities, approximates fair value based upon current rates and terms available to the company for similar debt.

The Company has one Level 2 derivative which is an interest rate swap related to the refinancing of its domestic distribution center (see Note 5 – Short-Term and Long-Term Borrowings) and classified as other long-term liabilities. 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. 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.

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. The Company considered COVID-19 related impacts to its estimates, as appropriate, within its condensed consolidated financial statements and there may be changes to those estimates in future periods. The Company believes that the accounting estimates are appropriate after giving considerations to the increased uncertainties surrounding the severity and duration of the COVID-19 pandemic. Such estimates and assumptions are subject to inherent uncertainties, actual results could differ materially from those estimates.

Revenue Recognition

In accordance with Accounting Standards Update (“ASU”) No. 2014-09, “*Revenue from Contracts with Customers*,” (“ASU 2014-09”), 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 other international customers. For distributor sales, the goods are generally delivered directly from the independent factories to third-party distribution centers or to 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 direct-to-consumer revenues primarily from the sale of footwear to customers at retail locations or through the Company’s websites. For in-store sales, the Company recognizes revenue at the point of sale. For sales made through its websites, the Company recognizes revenue upon shipment to the customer which is when the customer obtains control of the promised good. Sales and value added taxes collected from direct-to-consumer customers are excluded from reported revenues. Reference in this quarterly report to “Sales” refer to Skechers’ net sales reported under generally accepted accounting principles in the United States.

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 its 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 direct-to-consumer 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 an allowance for doubtful accounts for retail and direct-to-consumer sales is not 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, the Company receives up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue is earned (i.e., as licensed sales are reported to the Company or on a straight-line basis over the term of the agreement). The Company applies the sales-based royalty exception for the royalty income based on sales and recognizes revenue only when subsequent sales occur. 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 liability for product returns at the time of sale based on our historical experience. The Company also accrues amounts for goods expected to be returned in salable condition. As of September 30, 2020 and December 31, 2019, the Company's sales returns liability totaled \$96.3 million and \$86.5 million, respectively, and was included in accrued expenses in the accompanying condensed consolidated balance sheets.

Business Combinations

Business acquisitions are accounted for under the acquisition method by assigning the purchase price to tangible and intangible assets acquired and liabilities assumed. Assets acquired and liabilities assumed are recorded at their fair values and the excess of the purchase price over the amounts assigned is recorded as goodwill. Purchased intangible assets with finite lives are amortized over their estimated useful lives. Goodwill and intangible assets with indefinite lives are not amortized but are tested at least annually for impairment or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Fair value determinations require judgment and may involve the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives, and market multiples, among other items. In the second quarter of 2019, the Company purchased a 60% interest in Manhattan SKMX, S. de R.L. de C.V. ("Skechers Mexico"), for a total consideration of \$120.6 million, net of cash acquired (see Note 7 – Acquisition). Skechers Mexico is a joint venture that operates and generates sales in Mexico. As a result of this purchase, Skechers Mexico became a majority-owned subsidiary and the results are included in the condensed consolidated financial statements from the date of acquisition. The purchase price allocation was completed during the quarter ended March 31, 2020. Pro forma results of operations have not been presented because the effects of the acquisition were not material to the Company's condensed consolidated financial statements.

Accounting Standards Adopted in 2020

In June 2016, the FASB issued ASU No. 2016-13 *“Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,”* (“ASU 2016-13”), which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, which include trade and other receivables, loans and held-to-maturity debt securities, to record an allowance for credit risk based on expected losses rather than incurred losses, otherwise known as “CECL.” In addition, this guidance changes the recognition for credit losses on available-for-sale debt securities, which can occur as a result of market and credit risk and requires additional disclosures. The Company adopted ASU 2016-03 on January 1, 2020 and the adoption of this ASU did not have a material impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13 *“Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement,”* (“ASU 2018-13”), which modifies the disclosure requirements on fair value measurements, including the consideration of costs and benefits. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company adopted ASU 2018-13 on January 1, 2020 and the adoption of this ASU did not have a material impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 *“Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract,”* (“ASU 2018-15”). ASU 2018-15 requires that issuers follow the internal-use software guidance in Accounting Standards Codification (ASC) 350-40 to determine which costs to capitalize as assets or expense as incurred. The ASC 350-40 guidance requires that certain costs incurred during the application development stage be capitalized and other costs incurred during the preliminary project and post-implementation stages be expensed as they are incurred. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019. The Company adopted ASU 2018-15 on January 1, 2020 and the adoption of this ASU did not have a material impact on its condensed consolidated financial statements.

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, *“Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,”* (“ASU 2019-12”). The amendment removes certain exceptions to the general income tax accounting methodology including an exception for the recognition of a deferred tax liability when a foreign subsidiary becomes an equity method investment and an exception for interim periods showing operating losses in excess of anticipated operating losses for the year. The amendment also reduces the complexity surrounding franchise tax recognition; the step up in the tax basis of goodwill in conjunction with business combinations; and the accounting for the effect of changes in tax laws enacted during interim periods. The amendments in this update are effective for the Company for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of ASU 2019-12; 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 March 2020, the FASB issued ASU No. 2020-04 *“Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,”* (“ASU 2020-04”), which provides practical expedients for contract modifications and certain hedging relationships associated with the transition from reference rates that are expected to be discontinued. This guidance is applicable for our borrowing instruments, which use LIBOR as a reference rate, and is effective immediately, but is only available through December 31, 2022. The Company is currently evaluating the impact of ASU 2020-04; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its condensed consolidated financial statements.

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

The Company's investments consist of mutual funds held in the Company's deferred compensation plan which are classified as trading securities, U.S. Treasury securities, corporate notes and bonds, asset-backed securities and U.S. Agency securities, which the Company has the intent and ability to hold to maturity and therefore, are classified as held-to-maturity. The following tables show the Company's cash, cash equivalents, short-term and long-term investments by significant investment category as of September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	\$ 870,815	\$ -	\$ -	\$ 870,815	\$ 870,815	\$ -	\$ -
Level 1:							
Money market funds	423,407	-	-	423,407	423,407	-	-
U.S. Treasury securities	18,242	-	-	18,242	-	7,199	11,043
Total level 1	441,649	-	-	441,649	423,407	7,199	11,043
Level 2:							
Corporate notes and bonds	117,377	-	-	117,377	-	89,760	27,617
Asset-backed securities	31,156	-	-	31,156	-	5,525	25,631
U.S. Agency securities	4,283	-	-	4,283	-	4,283	-
Mutual funds	34,407	-	-	34,407	-	-	34,407
Total level 2	187,223	-	-	187,223	-	99,568	87,655
TOTAL	\$ 1,499,687	\$ -	\$ -	\$ 1,499,687	\$ 1,294,222	\$ 106,767	\$ 98,698

	December 31, 2019						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	\$ 662,355	\$ -	\$ -	\$ 662,355	\$ 662,355	\$ -	\$ -
Level 1:							
Money market funds	162,521	-	-	162,521	162,521	-	-
U.S. Treasury securities	9,686	-	-	9,686	-	1,679	8,007
Total level 1	172,207	-	-	172,207	162,521	1,679	8,007
Level 2:							
Corporate notes and bonds	132,431	-	-	132,431	-	104,130	28,301
Asset-backed securities	23,614	-	-	23,614	-	263	23,351
U.S. Agency securities	12,352	-	-	12,352	-	5,965	6,387
Mutual funds	28,543	-	-	28,543	-	-	28,543
Total level 2	196,940	-	-	196,940	-	110,358	86,582
TOTAL	\$ 1,031,502	\$ -	\$ -	\$ 1,031,502	\$ 824,876	\$ 112,037	\$ 94,589

The Company may sell certain of its investments prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The maturities of the Company's long-term investments are less than two years. The Company considers declines in market value of marketable securities investment portfolio to be temporary in nature. The Company minimizes the potential risk of principal loss by investing in highly-rated securities and limiting the amount of credit exposure to any one issuer. Fair values were determined for each individual security in the investment portfolio.

When evaluating an investment for its current expected credit losses, the Company reviews factors such as historical experience with defaults, losses, credit ratings, term, market sector and macroeconomic trends, including current conditions and forecasts to the extent they are reasonable and supportable. As of September 30, 2020, the current expected credit losses were not material to the Company's condensed consolidated financial statements.

(3) GOODWILL AND OTHER INTANGIBLE ASSETS

The Company evaluated the impairment of goodwill and other intangible assets. Based on the evaluation performed, no impairment loss was recorded for the goodwill and other intangible assets during the quarter ended September 30, 2020. As of September 30, 2020 and December 31, 2019, the net carrying amount of goodwill and other intangible assets were \$135.0 million and \$72.3 million.

	September 30, 2020	December 31, 2019
Goodwill		
Skechers Mexico	\$ 91,563	\$ 69,836
Others	1,934	1,576
Total goodwill	93,497	71,412
Other intangible assets		
Reacquired rights	46,100	641
Customer relationships and other acquisition related	5,478	—
Others	13,441	13,290
Total gross carrying amount	65,019	13,931
Less: Accumulated amortization	(23,490)	(13,066)
Total other intangible assets, net	41,529	865
Total	\$ 135,026	\$ 72,277

The expected future amortization expense for other intangible assets were as follows (in thousands):

	September 30, 2020
2020 remaining months	\$ 1,720
2021	6,871
2022	6,871
2023	6,871
2024	6,871
Thereafter	12,325
Total	\$ 41,529

(4) LEASES

The Company determines if an arrangement is a lease at inception, and, if a lease, what type of lease it is. The Company regularly enters into non-cancellable operating leases for automobiles, retail stores, and real estate leases for offices, showrooms and distribution facilities. Most leases have fixed rental payments. Leases for retail stores typically have initial terms ranging from 5 to 10 years. Other real estate or facility leases may have initial lease terms of up to 20 years. These leases are included within operating lease right-of-use (“ROU”) assets and liabilities on the Company’s condensed consolidated balance sheet as of September 30, 2020. The predominant asset for most real estate leases is the right to occupy the space which the Company has determined is the single lease component. Many of the Company’s real estate leases include options to extend or to terminate the lease that are not reasonably certain at the time of determining the expected lease term. In addition, the Company’s real estate leases may also require additional payments for real estate taxes and other occupancy-related costs. The Company considers renewal options and other occupancy-related costs which it considers as non-lease components. Percentage rent expense, which is specified in the lease agreement, is owed when sales at individual retail store locations exceed a base amount. Percentage rent expense is recognized in the condensed consolidated financial statements when incurred. Rent expense for leases having rent holidays, landlord incentives or scheduled rent increases is recorded on a straight-line basis over the earlier of the beginning of the lease term or when the Company takes possession or control of the leased premises. The amount of the excess straight-line rent expense over scheduled payments is recorded as an operating lease liability. Operating lease ROU assets and operating lease liabilities are recognized based upon the present value of the future lease payments over the lease term at the commencement date. Most of the Company’s leases do not provide an implicit borrowing rate. Therefore, the Company uses an estimated incremental borrowing rate based upon a combination of market-based factors, such as market quoted forward yield curves and Company specific factors, such as lease size and duration. The incremental borrowing rate is then used at the commencement date of the lease to determine the present value of future lease payments. The operating lease ROU asset also includes lease payments made and lease incentives and initial direct costs incurred. Lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. As of September 30, 2020 and December 31, 2019, current liabilities related to operating leases were \$196.8 million and \$191.1 million.

Operating lease cost and other information (in thousands):

	Three Months Ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Fixed lease cost	\$ 68,059	\$ 63,724	\$ 194,714	\$ 180,324
Variable lease cost	1,141	1,219	2,152	10,157
Operating cash flows used for leases	61,630	67,744	188,540	192,066
Noncash right-of-use assets recorded for lease liabilities:				
For January 1 adoption of <i>Topic 842</i>	—	—	—	1,035,062
In exchange for new lease liabilities during the period	45,327	74,500	177,379	114,542
Weighted-average remaining lease term	4.41 years	4.70 year	4.41 years	4.70 year
Weighted-average discount rate	4.02%	4.24%	4.02%	4.24%

The maturities of lease liabilities were as follows (in thousands):

	September 30, 2020
2020 remaining months	\$ 65,136
2021	240,845
2022	208,271
2023	184,152
2024	170,395
Thereafter	515,258
Total lease payments	1,384,057
Less: Imputed interest	(182,713)
	<u>\$ 1,201,344</u>

As of September 30, 2020, the Company has additional operating leases, primarily for new retail stores, that have not yet commenced which will generate additional right-of-use assets of \$15.7 million. These operating leases will commence in 2020 and 2021 with lease terms ranging from 2 year to 10 years.

(5) SHORT-TERM AND LONG-TERM BORROWINGS

The Company had \$8.5 million and \$3.8 million of outstanding letters of credit as of September 30, 2020 and December 31, 2019, respectively, and approximately \$21.7 million and \$5.8 million in short-term borrowings as of September 30, 2020 and December 31, 2019.

Long-term borrowings at September 30, 2020 and December 31, 2019 are as follows (in thousands):

	2020	2019
Unsecured revolving credit facility, variable-rate interest at 1.30% per annum, due November 2024	\$ 487,500	\$ —
Note payable to banks, interest only, variable-rate interest at 2.55% per annum, secured by property, balloon payment of \$129,505 due March 2025	129,505	63,692
Loan payable to a bank, variable-rate interest at 2.26% per annum, due April 2025	9,102	—
Note payable to Luen Thai Enterprise, Ltd.	—	393
Loan payable to a bank, variable-rate interest at 4.15% per annum, due September 2023	65,440	48,791
Loans payable to banks, variable-rate interests at a range of 1.84% to 3.87% per annum, due June 2024	78,563	2,541
Loan payable to a bank, variable-rate interest at 4.28% per annum, due May 2025	19,038	—
Loan payable to a bank, variable-rate interest at 1.86% per annum, due June 2025	1,165	—
Subtotal	790,313	115,417
Less: Current installments	(106,702)	(66,234)
Total long-term borrowings	\$ 683,611	\$ 49,183

Unsecured Revolving Credit Facility

On November 21, 2019, the Company entered into a \$500.0 million unsecured revolving credit facility, which matures on November 21, 2024 (the “2019 Credit Agreement”), with Bank of America, N.A., as administrative agent and joint lead arranger, HSBC Bank USA, N.A. and JPMorgan Chase Bank, N.A., as joint lead arrangers, and other lenders. The 2019 Credit Agreement replaced the Company’s then existing \$250.0 million loan and security agreement dated June 30, 2015 with Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association that was set to expire on June 30, 2020. The 2019 Credit Agreement may be increased by up to \$250.0 million under certain conditions and provides for the issuance of letters of credit up to a maximum of \$100.0 million and swingline loans up to a maximum of \$25.0 million. The Company may use the proceeds from the 2019 Credit Agreement for working capital and other lawful corporate purposes. At the Company’s option, any loan (other than swingline loans) will bear interest at a rate equal to (a) LIBOR plus an applicable margin between 1.125% and 1.625% based upon the Company’s Total Adjusted Net Leverage Ratio (as defined in the 2019 Credit Agreement) or (b) a base rate (defined as the highest of (i) the Federal Funds Rate plus 0.50%, (ii) the Bank of America prime rate and (iii) LIBOR plus 1.00%) plus an applicable margin between 0.125% and 0.625% based upon the Company’s Total Adjusted Net Leverage Ratio. Any swingline loan will bear interest at the base rate. The Company will pay a variable commitment fee of between 0.125% and 0.25% of the actual daily unused amount of each lender’s commitment, and will also pay a variable letter of credit fee of between 1.125% and 1.625% on the maximum amount available to be drawn under each issued and outstanding letter of credit, both of which are based upon the Company’s Total Adjusted Net Leverage Ratio. The 2019 Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including covenants that 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 2019 Credit Agreement also requires that the total adjusted net leverage ratio not exceed 3.75, except in the event of an acquisition in which case the ratio may be increased at the Company’s election to 4.25 for the quarter in which such acquisition occurs and for the next three quarters thereafter. As of September 30, 2020, the Company’s adjusted net leverage ratio was 1.40. The 2019 Credit Agreement provides for customary events of default including payment defaults, breaches of representations or warranties or covenants, cross defaults with certain other indebtedness to third parties, certain judgments/awards/orders, a change of control, bankruptcy and insolvency events, inability to pay debts, ERISA defaults, and invalidity or impairment of the 2019 Credit Agreement or any loan documentation related thereto, with, in certain circumstances, cure periods. Certain of the lenders party to the 2019 Credit Agreement, and their respective affiliates, have performed, and may in the future perform for the Company and the Company’s subsidiaries, various commercial banking, investment banking, underwriting and other financial advisory services, for which they have received, and will receive, customary fees and expenses. The Company paid origination, arrangement and legal fees of \$1.6 million on the 2019 Credit Agreement, which are being amortized to interest expense over the five-year life of the facility. On March 19, 2020, as a precautionary measure to maximize liquidity and to increase available cash on hand, the Company borrowed \$490.0 million on its unsecured revolving credit facility. The proceeds are available to be used for working capital, general corporate or other purposes. As of September 30, 2020, there was \$487.5 million outstanding under the 2019 Credit Agreement, which is classified as long-term borrowings in the Company’s condensed consolidated balance sheets. As of December 31, 2019, there was no amount outstanding under the 2019 Credit Agreement.

Construction Loans for U.S. Distribution Center

On April 30, 2010, the JV, through HF Logistics-SKX T1, LLC, a Delaware limited liability company and 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 our U.S. distribution center (the “2010 Loan”). On November 16, 2012, HF-T1 executed an amendment to the Construction Loan Agreement (the “Amendment”), which added OneWest Bank, FSB as a lender, increased the borrowings under the 2010 Loan to \$80.0 million and extended the maturity date of the 2010 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 amended and restated in its entirety the Construction Loan Agreement and the Amendment. Under the Amended Loan Agreement, the parties agreed that the lenders would loan \$70.0 million to HF-T1 (the “2015 Loan”). Pursuant to the Amended Loan Agreement, the interest rate per annum on the 2015 Loan was LIBOR Daily Floating Rate (as defined therein) plus a margin of 2%. The maturity date of the 2015 Loan was August 12, 2020, subject to HF-T1 having an option to a 24-month extension upon payment of a fee and satisfaction of certain customary terms.

On August 11, 2015, HF-T1 and Bank of America, N.A. also 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 had 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.

On March 18, 2020, HF-T1 entered into an amendment to the Amended Loan Agreement with Bank of America, N.A., Raymond James Bank, N.A. and CIT Bank, N.A. (the “2020 Amendment”) that increased the borrowings under the 2015 Loan to \$129.5 million and extended the maturity date of the 2015 Loan to March 18, 2025 (the “2020 Loan”). As of the date of the 2020 Amendment, the outstanding principal balance of the 2015 Loan was \$63.3 million. The additional indebtedness of \$66.2 million under the 2020 Amendment is being used by the JV through HF-T1 to (i) refinance all amounts owed on the 2015 Loan, (ii) pay \$1.0 million in accrued interest, loan fees and other closing costs associated with the 2020 Amendment and (iii) make a distribution of \$64.4 million to HF. Pursuant to the 2020 Amendment, the interest rate per annum on the 2020 Loan is the LIBOR Daily Floating Rate (as defined therein) plus a margin of 1.75%.

On March 18, 2020, HF-T1 and Bank of America, N.A. also executed an amendment to the Swap Agreement (the “Swap Agreement Amendment”) to extend the maturity date of the Interest Rate Swap to March 18, 2025. The Swap Agreement Amendment fixes the effective interest rate on the 2020 Loan at 2.55% per annum. The 2020 Amendment and the Swap Agreement Amendment are subject to customary covenants and events of default. Bank of America, N.A. also acts as a lender and syndication agent under the Company’s credit agreement dated November 21, 2019.

On April 3, 2020, the JV, through HF Logistics-SKX T2, LLC, a Delaware limited liability company and wholly-owned subsidiary of the JV (“HF-T2”), entered into a construction loan agreement with Bank of America, N.A. as administrative agent and lender (collectively, the “2020 Construction Loan Agreement”), pursuant to which the JV obtained a loan of up to \$73.0 million used for construction to expand our U.S. distribution center (the “2020 Construction Loan”). Under the 2020 Construction Loan Agreement, the interest rate per annum on the 2020 Construction Loan is LIBOR Daily Floating Rate (as defined therein) plus a margin of 190 basis points, reducing to 175 basis points upon substantial completion of the construction and certain other conditions being satisfied. The maturity date of the 2020 Construction Loan is April 3, 2025. The obligations of the JV under the 2020 Construction Loan Agreement are guaranteed by TGD Holdings I, LLC, which is an affiliate of HF.

Construction Loan for Distribution Center in China

On September 29, 2018, through the Taicang Subsidiary, the Company entered into a 700 million yuan loan agreement with China Construction Bank Corporation (“the China DC Loan Agreement”). The proceeds from the China DC Loan Agreement is being used to finance the construction of the Company’s distribution center in China. Interest is paid quarterly. The interest rate floats and is calculated at a reference rate provided by the People’s Bank of China. The interest rate at September 30, 2020 was 4.15% and may increase or decrease over the life of the loan, and will be evaluated every 12 months. The principal of the loan will be repaid in semi-annual installments, beginning in 2021, of variable amounts as specified in the China DC Loan Agreement. The China DC Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that limit the ability of the Subsidiary to, among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Loan Agreement, and adjust the capital stock structure of the TC Subsidiary. The China DC Loan Agreement matures on September 28, 2023. The obligations of the TC Subsidiary under the China DC Loan Agreement are jointly and severally guaranteed by the Company’s Chinese joint venture. As of September 30, 2020, there was \$65.4 million outstanding under this credit facility, which is classified as long-term borrowings in the Company’s condensed consolidated balance sheets.

Total Debt Obligations

As of September 30, 2020, outstanding short-term and long-term borrowing were \$812.0 million, of which \$487.5 million related to its unsecured revolving credit facility and \$129.5 million for a loan for its domestic distribution center, \$65.4 million for construction for its distribution center in China, \$78.6 million related to the operations in China, and \$19.0 million related to a corporate office building in Shanghai, China and the remaining balance relates to the Company’s international operations. The Company’s long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. The Company is in compliance with all debt covenants related to its short-term and long-term borrowings as of September 30, 2020.

(6) NON-CONTROLLING INTERESTS

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Company's products or to construct the Company's domestic distribution facility. These joint ventures are variable interest entities ("VIEs") under ASC 810-10-15-14. The Company's determination of the primary beneficiary of a VIE considers all relationships between the Company and the VIE, including management agreements, governance documents and other contractual arrangements. The Company has determined for its VIEs that the Company is the primary beneficiary because it has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Accordingly, the Company includes the assets and liabilities and results of operations of these entities in its condensed consolidated financial statements, even though the Company may not hold a majority equity interest. In April 2019, the Company acquired a 60% interest in a joint venture in Mexico (see Note 7 – Acquisition for additional information). In February 2019, the Company purchased the minority interest of its India joint-venture for \$82.9 million, which made its India joint venture a wholly owned subsidiary. There have been no changes during 2020 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):

HF Logistics (1)	September 30, 2020		December 31, 2019	
Current assets	\$	25,924	\$	5,297
Non-current assets		116,700		104,527
Total assets	\$	142,624	\$	109,824
Current liabilities	\$	14,097	\$	64,600
Non-current liabilities		133,042		1,009
Total liabilities	\$	147,139	\$	65,609
Product distribution joint ventures (2)	September 30, 2020		December 31, 2019	
Current assets	\$	886,715	\$	747,668
Non-current assets		510,102		325,283
Total assets	\$	1,396,817	\$	1,072,951
Current liabilities	\$	583,166	\$	430,282
Non-current liabilities		185,434		135,903
Total liabilities	\$	768,600	\$	566,185

(1) Includes HF Logistics-SKX, LLC and HF Logistics-SKX, T2, LLC.

(2) Distribution joint ventures include Skechers Footwear Ltd. (Israel), Skechers China Limited, Skechers Korea Limited, Skechers Southeast Asia Limited, Skechers (Thailand) Limited, and Manhattan SKMX, S. de R.L. de C.V. (Mexico).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net earnings attributable to non-controlling interests	\$ 17,832	\$ 18,644	\$ 22,771	\$ 57,723
Distributions to:				
HF Logistics-SKX, LLC	20,788	870	47,660	2,718
Skechers China Limited	—	12,600	4,182	32,245
Skechers Southeast Asia Limited	—	2,027	—	2,027
Skechers Hong Kong Limited	—	618	—	618
Contributions from:				
HF Logistics-SKX, LLC	—	—	—	7,565
Manhattan SKMX, S. de R.L. de C.V.	—	—	49,045	22,776

(7) ACQUISITION

Mexico Joint Venture Acquisition

On April 1, 2019, the Company purchased a 60% interest in Manhattan SKMX, S. de R.L. de C.V. (“Skechers Mexico”) for a total consideration of \$120.6 million, net of cash acquired. Skechers Mexico is a joint venture that operates and generates sales in Mexico. As a result of this purchase, Skechers Mexico became a majority-owned subsidiary of the Company and its results are consolidated in the Company’s condensed consolidated financial statements beginning April 1, 2019. The formation of the joint venture provides significant merchandising, supply chain and retail operations in Mexico. The Company completed the purchase price allocation during the quarter ended March 31, 2020. The change to the provisional amounts resulted in a \$22.1 million increase to goodwill, a \$49.1 million increase to intangible assets and a \$17.1 million increase to deferred tax liabilities. Additionally, the change to the provisional amounts resulted in a \$13.9 million gain on reacquired rights and an increase in amortization expense and accumulated amortization of \$7.0 million, of which \$5.2 million relates to the prior year and an \$8.0 million increase in inventory, of which \$6.0 million relates to the prior year. The prior year amounts were not material to amortization expense or cost of sales within the consolidated statements of earnings for the ended December 31, 2019. Acquisition-related costs of \$0.9 million associated with the acquisition were expensed as incurred, and included in general and administrative expenses in the condensed consolidated statement of earnings. Pro forma results of operations have not been presented because the effect of the acquisition was not material to the Company’s condensed consolidated financial statements.

The allocation of the total consideration has been recorded as follows (in thousands):

Cash	\$	1,061
Accounts receivable		31,763
Inventory (1)		47,890
VAT receivable		12,658
Deferred tax assets		2,180
Property, plant, and equipment		12,531
Reacquired rights intangible assets (2)		46,100
Customer relationships intangible assets (2)		3,000
Goodwill		91,563
Total assets acquired		248,746
Accounts payable		25,454
VAT payable		4,721
Deferred tax liability		17,129
Total liabilities assumed		47,304
Non-controlling interest		79,798
Total purchase price	\$	<u>121,644</u>

(1) *Included a step-up to fair market adjustment of \$8.0 million, which was amortized over a period of less than 12 months.*

(2) *Reacquired rights will be amortized over 1 to 7 years, and customer relationships will be amortized over 10 years.*

(8) 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, par value \$0.001 per share (“Class A common stock”) and Class B common stock, par value \$0.001 per share (“Class B common stock”). Holders of Class A common stock and holders of Class B common stock have substantially identical rights, including rights with respect to any declared dividends or distributions of cash or property and the right to receive proceeds on liquidation or dissolution of the Company after payment of the Company’s indebtedness. The two classes have different voting rights, with holders of Class A common stock entitled to one vote per share while holders of Class B common stock are entitled to ten votes per share on all matters submitted to a vote of stockholders. The Company uses the two-class method for calculating net earnings per share. Basic and diluted net earnings per share of Class A common stock and Class B common stock are identical. The shares of Class B common stock are convertible at any time at the option of the holder into shares of Class A common stock on a share-for-share basis. In addition, shares of Class B common stock will be automatically converted into a like number of shares of Class A common stock upon transfer to any person or entity who is not a permitted transferee.

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

Basic earnings per share	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net earnings attributable to Skechers U.S.A., Inc.	\$ 64,278	\$ 103,090	\$ 45,283	\$ 287,028
Weighted average common shares outstanding	154,462	153,298	154,061	153,396
Basic earnings per share attributable to Skechers U.S.A., Inc.	\$ 0.42	\$ 0.67	\$ 0.29	\$ 1.87

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

Diluted earnings per share	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net earnings attributable to Skechers U.S.A., Inc.	\$ 64,278	\$ 103,090	\$ 45,283	\$ 287,028
Weighted average common shares outstanding	154,462	153,298	154,061	153,396
Dilutive effect of unvested shares	518	680	646	625
Weighted average common shares outstanding	154,980	153,978	154,707	154,021
Diluted earnings per share attributable to Skechers U.S.A., Inc.	\$ 0.41	\$ 0.67	\$ 0.29	\$ 1.86

There were 88,577 and 108,328 shares excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2020 because their effect would have been anti-dilutive. There were 6,454 and 101,992 shares excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2019 because they are anti-dilutive.

(9) STOCK COMPENSATION

On April 17, 2017, the Company's Board of Directors adopted the 2017 Incentive Award Plan (the "2017 Plan"), which became effective upon approval by the Company's stockholders on May 23, 2017. The 2017 Plan replaced and superseded in its entirety the 2007 Incentive Award Plan (the "2007 Plan"), which expired pursuant to its terms on May 24, 2017. A total of 15,000,000 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, employee stock purchase plan, 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 recognizes compensation expense based on the grant date fair value. Share-based compensation expense was \$29.7 million and \$10.7 million for the three months ended September 30, 2020 and 2019. Share-based compensation expense was \$55.0 million and \$30.2 million for the nine months ended September 30, 2020 and 2019. Included in the compensation expense recognized in 2020 is an \$18.2 million non-cash charge related to the cancellation of 750,000 unvested shares as a result of a legal settlement. During the three and nine months ended September 30, 2020, the Company redeemed 171,120 shares of Class A common stock for \$5.7 million to satisfy employee tax withholding requirements. During the three and nine months ended September 30, 2019, the Company repurchased 4,821 and 423,206 shares of Class A common stock for \$0.2 million and \$13.7 million to satisfy employee tax withholding requirements, respectively.

A summary of the status and changes of the Company's unvested shares related to the 2007 Plan and the 2017 Plan as of and for the nine months ended September 30, 2020 is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Unvested at December 31, 2019	3,426,823	\$ 32.54
Granted	1,069,300	\$ 36.52
Vested	(1,035,917)	\$ 32.43
Cancelled	(784,000)	\$ 32.25
Unvested at September 30, 2020	2,676,206	\$ 34.26

As of September 30, 2020, there was \$66.0 million of unrecognized compensation cost related to unvested common shares. The cost is expected to be amortized over a weighted average period of 1.8 years.

(10) INCOME TAXES

Income tax expense and the effective tax rate for the three and nine months ended September 30, 2020 and 2019 were as follows (dollar amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Income tax expense	\$ 14,983	\$ 22,766	\$ 18,104	\$ 75,288
Effective tax rate	15.4%	15.8%	21.0%	17.9%

The tax provisions for the three and nine months ended September 30, 2020 and 2019 were computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. The Company's tax rate is subject to management's quarterly review and revision, as necessary.

The Company's provision for income tax expense and effective income tax rate are significantly impacted by the mix of the Company's domestic and foreign earnings (losses) before income taxes. In the foreign jurisdictions in which the Company has operations, the applicable statutory rates range from 0.0% to 34.0%, which is on average significantly lower than the U.S. federal and state combined statutory rate of approximately 25%.

For the three months ended September 30, 2020, the decrease in the effective tax rate as compared to the tax rate for the three months ended September 30, 2019 was primarily due to a tax favorable change in the mixture of the Company's domestic and foreign earnings which was partially offset by the rate impact of the non-deductible charge for a restricted share cancellation which occurred during the quarter ended September 30, 2020. For the nine months ended September 30, 2020, the increase in the effective tax rate, as compared to the tax rate for the nine months ended September 30, 2019, was primarily due to the rate impact of the non-deductible charge for a restricted share cancellation which occurred during the nine months ended September 30, 2020.

As of September 30, 2020, the Company had approximately \$1,294.2 million in cash and cash equivalents, of which \$596.9 million, or 46%, was held outside the U.S. Of the \$596.9 million held by the Company's non-U.S. subsidiaries, approximately \$299.6 million is available for repatriation to the U.S. without incurring U.S. federal income taxes and applicable non-U.S. income and withholding taxes in excess of the amounts accrued in the Company's condensed consolidated financial statements as of September 30, 2020.

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 Company's U.S. cash requirements and the need to provide payment of the Company's provisional Transition Tax liability, the Company may begin repatriating certain funds held outside the U.S. for which all applicable U.S. federal and non-U.S. tax has been fully provided as of September 30, 2020. The Company has provided for the tax impact of expected distributions from its joint venture in China as well as from its subsidiary in Chile to its intermediate parent company in Switzerland. Otherwise, because of the need for cash for operating capital and continued overseas expansion, the Company does not foresee the need for our other 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 it 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, and to certain state income taxes.

On March 27, 2020, the President signed into law the CARES Act. The CARES Act, among other things, includes certain beneficial tax provisions. While we are able to take advantage of some of these provisions, none had a material impact on our business, financial condition, results of operations, or liquidity for the three and nine months ended September 30, 2020. We will continue to monitor the impact that the CARES Act may have on our business, financial condition, results of operations, or liquidity.

Due to the enactment of the 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 when incurred, or to recognize deferred taxes for temporary differences including outside basis differences expected to reverse as GILTI. The Company has elected to account for GILTI as a period cost, and therefore has included GILTI expense in its effective tax rate calculation for the three and nine months ended September 30, 2020 and 2019.

On July 27, 2015, the United States Tax Court issued a decision (the “Tax Court Decision”) in *Altera Corp. v. Commissioner*, which concluded that related parties in a cost sharing arrangement are not required to share expenses related to share-based compensation. The Tax Court Decision was appealed by the Commissioner to the Ninth Circuit Court of Appeals (the “Ninth Circuit”). On June 7, 2019, a three-judge panel from the Ninth Circuit issued an opinion (the “Altera Ninth Circuit Panel Opinion”) that reversed the Tax Court Decision. Based on the Altera Ninth Circuit Panel Opinion, the Company recorded a cumulative income tax expense of \$1.5 million in the second quarter of 2019. On July 22, 2019, Altera requested a rehearing before the full Ninth Circuit, but the request was rejected on November 11, 2019. Altera subsequently appealed from the Ninth Circuit to the Supreme Court, but the request for hearing was denied on June 22, 2020. The tax impact of the decision of the Ninth Circuit was previously provided for and the Company currently includes share-based compensation in its cost sharing arrangement; therefore, the Supreme Court’s denial of hearing has no further tax impact.

(11) 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 \$264.3 million and \$228.5 million before allowances for bad debts, sales returns and chargebacks at September 30, 2020 and December 31, 2019, respectively. Foreign accounts receivable, which in some cases are collateralized by letters of credit, were \$486.4 million and \$440.9 million before allowance for bad debts, sales returns and chargebacks at September 30, 2020 and December 31, 2019, respectively. The Company’s credit losses attributable to write-offs for the three months ended September 30, 2020 and 2019 were \$0.9 million and \$1.6 million, respectively. The Company’s credit losses attributable to write-offs for the nine months ended September 30, 2020 and 2019 were \$3.8 million and \$5.7 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 \$3,036.4 million and \$2,643.8 million at September 30, 2020 and December 31, 2019, respectively.

The Company’s net sales to its five largest customers accounted for approximately 8.8% and 9.4% of total sales for the three months ended September 30, 2020 and 2019, respectively. The Company’s sales to its five largest customers accounted for approximately 8.9% and 9.7% of total sales for the nine months ended September 30, 2020 and 2019, respectively.

The Company’s top five manufacturers produced the following, as a percentage of total production, for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Manufacturer #1	16.4%	16.5%	20.6%	15.8%
Manufacturer #2	6.7%	8.3%	6.9%	8.3%
Manufacturer #3	6.0%	7.2%	5.8%	6.9%
Manufacturer #4	5.7%	5.5%	4.5%	5.1%
Manufacturer #5	4.8%	4.7%	4.4%	5.0%
	<u>39.6%</u>	<u>42.2%</u>	<u>42.2%</u>	<u>41.1%</u>

The majority of the Company’s products are produced in China and Vietnam. The Company’s operations are subject to the customary risks of doing business abroad, including, but not limited to, currency fluctuations and revaluations, custom duties, tariffs and related fees, various import controls and other monetary barriers, restrictions on the transfer of funds, labor unrest and strikes, local disruptions 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.

(12) SEGMENT AND GEOGRAPHIC REPORTING

The Company has three reportable segments – domestic wholesale sales, international wholesale sales, and direct-to-consumer sales. Management evaluates segment performance based primarily on 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. Sales, gross margins, identifiable assets and additions to property and equipment for the domestic wholesale, international wholesale, direct-to-consumer sales segments on a combined basis were as follows (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Sales:				
Domestic wholesale	\$ 318,449	\$ 299,634	\$ 827,148	\$ 951,635
International wholesale	643,393	646,596	1,603,774	1,824,214
Direct-to-consumer	339,044	407,768	841,781	1,113,470
Total	<u>\$ 1,300,886</u>	<u>\$ 1,353,998</u>	<u>\$ 3,272,703</u>	<u>\$ 3,889,319</u>

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Gross profit:				
Domestic wholesale	\$ 123,122	\$ 111,205	\$ 318,824	\$ 354,299
International wholesale	295,565	298,799	716,489	837,467
Direct-to-consumer	206,434	243,060	506,041	661,642
Total	<u>\$ 625,121</u>	<u>\$ 653,064</u>	<u>\$ 1,541,354</u>	<u>\$ 1,853,408</u>

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Identifiable assets:		
Domestic wholesale	\$ 1,934,991	\$ 1,472,323
International wholesale	2,397,446	2,100,042
Direct-to-consumer	1,378,957	1,320,578
Total	<u>\$ 5,711,394</u>	<u>\$ 4,892,943</u>

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Additions to property, plant and equipment:				
Domestic wholesale	\$ 36,036	\$ 7,976	\$ 71,245	\$ 66,001
International wholesale	13,647	27,947	96,091	73,922
Direct-to-consumer	13,881	13,010	45,880	34,740
Total	<u>\$ 63,564</u>	<u>\$ 48,933</u>	<u>\$ 213,216</u>	<u>\$ 174,663</u>

Geographic Information:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Sales (1):				
United States	\$ 537,528	\$ 558,173	\$ 1,386,522	\$ 1,655,413
Canada	36,995	46,576	97,203	138,900
Other international (2)	726,363	749,249	1,788,978	2,095,006
Total	\$ 1,300,886	\$ 1,353,998	\$ 3,272,703	\$ 3,889,319

	September 30, 2020	December 31, 2019
Property, plant and equipment, net:		
United States	\$ 491,600	\$ 439,132
Canada	5,959	7,286
Other international (2)	372,603	292,507
Total	\$ 870,162	\$ 738,925

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

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

In response to the State Department's trade restrictions with Sudan and Syria, the Company does not authorize or permit any distribution or sales of its product in these countries, and the Company is not aware of any current or past distribution or sales of our product in Sudan or Syria.

(13) RELATED PARTY TRANSACTIONS

On July 29, 2010, the Company formed the Skechers Foundation (the "Foundation"), which is a 501(c)(3) non-profit entity that does not have any shareholders or members. The Foundation is not a subsidiary of, and is not otherwise affiliated with the Company, and the Company does not have a financial interest in the Foundation. However, two officers and directors of the Company, Michael Greenberg, the Company's President, and David Weinberg, the Company's Chief Operating Officer, are also officers and directors of the Foundation. During the three months ended September 30, 2020 and 2019, the Company made contributions of \$500,000 and \$250,000 to the Foundation, respectively. During the nine months ended September 30, 2020 and 2019, the Company made contributions of \$1,500,000 and \$750,000 to the Foundation, respectively.

(14) LITIGATION

In accordance with U.S. GAAP, the Company records a liability in its condensed consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings are inherently difficult to predict, particularly when the matters are in the procedural stages or with unspecified or indeterminate claims for damages, potential penalties, or fines. Accordingly, the Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the condensed consolidated financial statements as of September 30, 2020, 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, 2019.

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:

- the COVID-19 pandemic and its adverse impact on our operations and our business, sales and results of operations around the world;
- 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, 2019 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 herein 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.

OVERVIEW

The COVID-19 pandemic continues to impact various markets and business channels, yet we saw meaningful improvements during the third quarter of 2020 including a return to growth in many markets. Although the recovery has been at a different pace across countries, we remain confident in our actions and strength of the brand. Consumers have gravitated towards comfort in their lives as people are predominately working from home and with increased focus on their well-being. We believe the actions we have taken and the strength of our brand positions Skechers well as a recovery continues.

We continue to invest for growth with a focus on our direct-to-consumer capabilities and global infrastructure.

- To further enhance our consumer shopping experience, we began implementing a new point of sale system in our domestic retail locations, introduced a new website and mobile application suite, and made enhancements to our omnichannel capabilities, including introducing features like buy online pick up in store and buy online pick up curbside.
- We completed the expansion of our European distribution center in July 2020, and opened new distribution centers in Panama and Colombia.
- Our new China distribution center remains on-track and we began plans to open a new UK based distribution.
- Development continued on our North American distribution center expansion, which we expect to be complete in the second-half of 2021.
- During the quarter ended September 30, 2020, we opened 24 company-owned stores and 189 third-party Skechers stores globally.

RESULTS OF OPERATIONS

We have three reportable segments – domestic wholesale, international wholesale, and direct-to-consumer, which includes results from both our retail store and e-commerce channels. We evaluate segment performance based primarily on sales and gross margins.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
Sales	\$ 1,300,886	100.0 %	\$ 1,353,998	100.0 %	\$ 3,272,703	100.0 %	\$ 3,889,319	100.0 %
Cost of sales	675,765	51.9	700,934	51.8	1,731,349	52.9	2,035,911	52.3
Gross profit	625,121	48.1	653,064	48.2	1,541,354	47.1	1,853,408	47.7
Royalty income	3,216	0.2	6,285	0.5	11,061	0.3	17,827	0.4
	628,337	48.3	659,349	48.7	1,552,415	47.4	1,871,235	48.1
Operating expenses:								
Selling	85,926	6.6	97,516	7.2	220,222	6.7	281,237	7.2
General and administrative	450,285	34.6	414,417	30.6	1,256,228	38.4	1,165,637	30.0
	536,211	41.2	511,933	37.8	1,476,450	45.1	1,446,874	37.2
Earnings from operations	92,126	7.1	147,416	10.9	75,965	2.3	424,361	10.9
Interest income	1,884	0.1	3,290	0.2	5,739	0.2	9,500	0.2
Interest expense	(4,643)	(0.4)	(2,012)	(0.1)	(11,428)	(0.4)	(5,194)	(0.1)
Other, net	7,726	0.7	(4,194)	(0.3)	15,882	0.5	(8,628)	(0.2)
Earnings before income tax expense	97,093	7.5	144,500	10.7	86,158	2.6	420,039	10.8
Income tax expense	14,983	1.2	22,766	1.7	18,104	0.5	75,288	1.9
Net earnings	82,110	6.3	121,734	9.0	68,054	2.1	344,751	8.9
Less: Net earnings attributable to non-controlling interests	17,832	1.4	18,644	1.4	22,771	0.7	57,723	1.5
Net earnings attributable to Skechers U.S.A., Inc.	\$ 64,278	4.9 %	\$ 103,090	7.6 %	\$ 45,283	1.4 %	\$ 287,028	7.4 %

Sales

Sales for the three months ended September 30, 2020 were \$1,300.9 million, a decrease of \$53.1 million, or 3.9%, as compared to sales of \$1,354.0 million for the three months ended September 30, 2019. The decrease is a result of a 4.1% decrease in our international business and a 3.7% decrease in our domestic business. Our domestic wholesales segment sales increased 6.3%, international wholesales segment sales decreased 0.5% and direct-to consumer segment sales decreased 16.9%.

Domestic wholesale sales increased \$18.8 million, or 6.3%, to \$318.5 million for the three months ended September 30, 2020 from \$299.6 million for the three months ended September 30, 2019. The increase was driven by a sales volume increase of 11.9%, partially offset by a 1.5% decrease in average selling price. Sales volume increased to 14.6 million pairs from 13.0 million pairs for the same period in 2019. The average price per pair decreased to \$22.50 per pair from \$22.85 per pair.

International wholesale sales decreased \$3.2 million, or 0.5%, to \$643.4 million for the three months ended September 30, 2020 compared to sales of \$646.6 million for the three months ended September 30, 2019. Our international wholesale sales consist of direct sales by our foreign subsidiaries and joint ventures, that we make to department stores, specialty retailers and sales to our distributors, who in turn sell to retailers in various international regions where we do not sell directly. Distributor sales was \$56.9 million, a decrease of \$44.2 million, or 43.7% and direct sales by our foreign subsidiaries and joint ventures was \$586.5 million, an increase of \$41.0 million, or 7.5%. Substantially all of the decrease in international wholesale segment sales was due to a volume reduction of 0.5% in the number of units sold. The average selling price was flat compared to the same period in 2019.

Direct-to-consumer sales decreased \$68.7 million, or 16.9%, to \$339.0 million for the three months ended September 30, 2020, as compared to sales of \$407.8 million for the three months ended September 30, 2019. Declines were driven by lower domestic and international retail store sales, partially offset by a 172.1% increase in domestic e-commerce sales. Direct-to-consumer comparable same store sales decreased 22.1%, including decreases of 20.4% domestically and 26.1% internationally. Direct-to-consumer sales volume decreased due to a 17.8% reduction in the number of units sold, partially offset by a 1.1% increase in the average selling price per unit.

Gross profit

Gross profit for the three months ended September 30, 2020 decreased \$28.0 million, or 4.3%, to \$625.1 million as compared to \$653.1 million for the three months ended September 30, 2019. Gross margins remained relatively flat at 48.1% with higher promotional activity internationally, partially offset by a favorable mix of e-commerce and international sales.

Domestic wholesale gross profit increased \$11.9 million, or 10.7%, to \$123.1 million for the three months ended September 30, 2020, as compared to \$111.2 million for the three months ended September 30, 2019. Domestic wholesale gross margins increased 1.6% to 38.7% due to lower cost per pair partially offset by a decrease in the average selling price.

International wholesale gross profit decreased \$3.2 million, or 1.1%, to \$295.6 million for the three months ended September 30, 2020 as compared to \$298.8 million for the three months ended September 30, 2019. International wholesale gross margins decreased 0.3% to 45.9% primarily due to increased promotional activity, partially offset by reduced distributor sales which have lower margins.

Direct-to-consumer gross profit decreased \$36.6 million, or 15.1%, to \$206.4 million for the three months ended September 30, 2020 as compared to \$243.1 million for the three months ended September 30, 2019. Direct-to-consumer gross margins increased 1.3% to 60.9% driven by a higher mix of e-commerce sales which have higher 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. 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 decreased by \$11.6 million, or 11.9%, to \$85.9 million for the three months ended September 30, 2020 from \$97.5 million for the three months ended September 30, 2019 primarily due to lower worldwide advertising and marketing spending of \$7.0 million. As a percentage of net sales, selling expenses were 6.6% and 7.2% for the three months ended September 30, 2020 and 2019.

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, point-of-purchase costs, advertising and display costs.

General and administrative expenses

General and administrative expenses increased by \$35.9 million, or 8.7%, to \$450.3 million for the three months ended September 30, 2020 from \$414.4 million for the three months ended September 30, 2019. As a percentage of sales, general and administrative expenses were 34.6% and 30.6% for the three months ended September 30, 2020 and 2019, respectively. The \$35.9 million increase in general and administrative expenses was primarily due to a one-time \$18.2 million non-cash, equity compensation charge associated with a legal settlement, and \$17.3 million of volume driven warehouse and distribution expenses in both international and domestic businesses.

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.

Other income (expense)

Interest income decreased \$1.4 million to \$1.9 million for the three months ended September 30, 2020 as compared to \$3.3 million for the three months ended September 30, 2019. The decrease in interest income was primarily due to lower average interest rates compared to the prior year period. Interest expense increased by \$2.6 primarily due to additional borrowings under our credit facility. Other income increased \$11.9 million primarily attributable to favorable foreign currency exchange rates.

Income taxes

Income tax expense and the effective tax rate for the three months ended September 30, 2020 and 2019 were as follows (dollar amounts in thousands):

	Three Months Ended September 30,	
	2020	2019
Income tax expense	\$ 14,983	\$ 22,766
Effective tax rate	15.4%	15.8%

The tax provisions for the three months ended September 30, 2020 and 2019 were computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year.

Our provision for income tax expense and effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (losses) before income taxes. In the foreign jurisdictions in which we have operations, the applicable statutory rates range from 0.0% to 34.0%, which on average are generally significantly lower than the U.S. federal and state combined statutory rate of approximately 25%.

For the three months ended September 30, 2020, the decrease in the effective tax rate as compared to the tax rate for the three months ended September 30, 2019 was primarily due a tax favorable change in the mixture of our domestic and foreign earnings which was partially offset by the rate impact of the non-deductible charge for a restricted share cancellation which occurred during the quarter ended September 30, 2020.

See Note 10 – Income Taxes of the Condensed Consolidated Financial Statements for additional information.

Non-controlling interests in net income of consolidated subsidiaries

Net earnings attributable to non-controlling interests for the three months ended September 30, 2020 decreased \$0.8 million to \$17.8 million as compared to \$18.6 million for the same period in 2019 primarily attributable to decreased profitability by our joint ventures due to the impacts related to COVID-19 pandemic. Non-controlling interests represents the share of net earnings that is attributable to our joint venture partners.

Sales

Sales for the nine months ended September 30, 2020 were \$3,272.7 million, a decrease of \$616.6 million, or 15.9%, as compared to sales of \$3,889.3 million for the nine months ended September 30, 2019, which reflected the impact of the global pandemic on our businesses worldwide.

Domestic wholesale sales decreased \$124.5 million, or 13.1%, to \$827.1 million for the nine months ended September 30, 2020 from \$951.6 million for the nine months ended September 30, 2019. Sales volume decrease driven by a 15.4% reduction in the number of pairs sold, partially offset by a 1.0% increase in average price per pair.

International wholesale sales decreased \$220.4 million, or 12.1%, to \$1,603.8 million for the nine months ended September 30, 2020 compared to sales of \$1,824.2 million for the nine months ended September 30, 2019. Our distributor sales decreased to \$186.2 million, a decrease of \$103.7 million or 35.8% and direct sales by our foreign subsidiaries and joint ventures, were \$1,417.6 million, a decrease of \$116.8 million, or 7.6%. The number of units sold decreased 8.9% and the average selling price decreased by 3.5%.

Direct-to-consumer sales decreased \$271.7 million, or 24.4%, to \$841.8 million for the nine months ended September 30, 2020 as compared to sales of \$1,113.5 million for the nine months ended September 30, 2019. Declines were driven by lower domestic and international retail sales during temporary store closures, partially offset by a 243.3% increase in domestic e-commerce sales. Direct-to-consumer comparable same store sales decreased 28.5% for the nine months ended September 30, 2020. The number of units sold decreased 25.3% and the average selling price increased 1.2%.

Gross profit

Gross profit for the nine months ended September 30, 2020 decreased \$312.1 million to \$1,541.3 million as compared to \$1,853.4 million for the nine months ended September 30, 2019. Gross margin decreased 0.6% to 47.1% due to lower international gross margins as a result of higher promotional activity particularly in Asia.

Domestic wholesale gross profit decreased \$35.5 million, or 10.0%, to \$318.8 million for the nine months ended September 30, 2020 compared to \$354.3 million for the nine months ended September 30, 2019. Domestic wholesale gross margins increased 1.3% to 38.5% primarily driven by lower product costs.

International wholesale gross profit decreased \$121.0 million, or 14.4%, to \$716.5 million for the nine months ended September 30, 2020 as compared to \$837.5 million for the nine months ended September 30, 2019. International wholesale gross margins decreased 1.2% to 44.7% as a result of higher promotional activity in our joint-ventures, a lower mix of distributor sales, and non-cash purchase price adjustments related to the acquisition of our joint venture in Mexico.

Direct-to-consumer gross profit decreased \$155.6 million, or 23.5%, to \$506.0 million for the nine months ended September 30, 2020 as compared to \$661.6 million for the nine months ended September 30, 2019. Direct-to-consumer gross margins increased 0.7% to 60.1% due to higher mix of e-commerce sales which have higher overall margins.

Selling expenses

Selling expenses decreased by \$61.0 million, or 21.7%, to \$220.2 million for the nine months ended September 30, 2020 from \$281.2 million for the nine months ended September 30, 2019. As a percentage of sales, selling expenses were 6.7% and 7.2% for the nine months ended September 30, 2020 and 2019, respectively. The decrease in selling expenses was primarily due to lower worldwide advertising and marketing spending of \$48.1 million.

General and administrative expenses

General and administrative expenses increased by \$90.6 million, or 7.8% primarily driven by \$31.7 million of volume driven warehouse and distribution expenses for both international and domestic businesses and a one-time \$18.2 million non-cash, equity compensation charge associated with a legal settlement.

Other income (expense)

Interest income decreased \$3.8 million to \$5.7 million for the nine months ended September 30, 2020 as compared to \$9.5 million for the nine months ended September 30, 2019. The decrease in interest income was due primarily due to decreased interest rates. Interest expense increased \$6.2 million due to additional borrowings under our credit facility. Other income increased \$24.5 million primarily due to purchase price adjustments from the acquisition of our Mexico joint venture and interest generated from investments.

Income taxes

Income tax expense and the effective tax rate for the nine months ended September 30, 2020 and 2019 were as follows (dollar amounts in thousands):

	Nine Months Ended September 30,	
	2020	2019
Income tax expense	\$ 18,104	\$ 75,288
Effective tax rate	21.0%	17.9%

The tax provisions for the nine months ended September 30, 2020 and 2019 were computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. Our effective tax rate is subject to management's quarterly review and revision, as necessary.

Our provision for income tax expense and effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (losses) before income taxes. In the foreign jurisdictions in which we have operations, the applicable statutory rates range from 0.0% to 34.0%, which on average are generally significantly lower than the U.S. federal and state combined statutory rate of approximately 25%.

For the nine months ended September 30, 2020, the increase in the effective tax rate, as compared to the tax rate for the nine months ended September 30, 2019, was primarily due to the rate impact of the non-deductible charge for a restricted share cancellation which occurred during the nine months ended September 30, 2020.

See Note 10 – Income Taxes of the Condensed Consolidated Financial Statements for additional information.

Non-controlling interests in net earnings of consolidated subsidiaries

Net earnings attributable to non-controlling interests for the nine months ended September 30, 2020 decreased \$35.0 million to \$22.8 million as compared to net earnings \$57.7 million for the same period in 2019 attributable to decreased profitability by countries still experiencing COVID related impacts. Non-controlling interests represents the share of net earnings that is attributable to our joint venture partners.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity outlook

Our liquidity remains ample and we believe we are well-positioned to endure the environment associated with the COVID-19 pandemic. We have taken actions to preserve our liquidity and manage our cash flow. As a precautionary measure, in March 2020, we borrowed \$490.0 million on our unsecured revolving credit facility. There is capacity for an additional \$250.0 million available on our unsecured credit facility through an accordion feature. We continue to partner with our vendors, landlords, and lenders to maximize our liquidity and mitigate cash flow risk.

Cash Flows

Our working capital at September 30, 2020 was \$2,125.2 million, an increase of \$543.8 million from working capital of \$1,581.4 million at December 31, 2019. Our cash and cash equivalents at September 30, 2020 were \$1,294.2 million, compared to \$824.9 million at December 31, 2019. Our primary sources of operating cash are collections from customers on wholesale and direct-to-consumer sales. Our primary uses of cash are inventory purchases, selling, general and administrative expenses and capital expenditures.

Operating Activities

For the nine months ended September 30, 2020, net cash provided by operating activities was \$57.0 million as compared to \$349.3 million for the nine months ended September 30, 2019. On a comparative year-over-year basis, the \$292.3 million decrease in net cash provided by operating activities primarily resulted from reduced net earnings of \$276.7 million.

Investing Activities

Net cash used in investing activities was \$212.1 million for the nine months ended September 30, 2020 as compared to \$273.6 million for the nine months ended September 30, 2019. The \$61.5 million decrease was primarily due to the acquisition of our Mexico joint-venture of \$100.7 million in 2019 partially offset by an increase in capital expenditures of \$38.6 million. Capital expenditures for the nine months ended September 30, 2020 were approximately \$213.2 million, which consisted of \$61.4 million to support our worldwide distribution capabilities, \$61.0 million was related to the acquisition of a corporate office building in Shanghai and for new retail stores in China, and \$45.9 million for direct-to-consumer stores and e-commerce investments worldwide. Capital expenditures for the nine months ended September 30, 2019 were approximately \$174.7 million, of which \$41.2 million was related to the construction of our distribution center in China, \$34.7 million related to retail stores worldwide, and \$32.7 million to support our worldwide distribution capabilities. We expect our ongoing capital expenditures for the remainder of 2020 to be approximately \$125.0 million to \$150.0 million, which is primarily related to the construction of our China distribution center and expansions to our worldwide distribution capabilities. We expect to fund ongoing capital expenses through a combination of borrowings and available cash.

Financing Activities

Net cash provided by financing activities was \$637.4 million during the nine months ended September 30, 2020 compared to \$137.6 million in net cash used in financing activities during the nine months ended September 30, 2019. The \$775.0 million increase is primarily long-term borrowings of \$660.8 million which includes \$490.0 million on our unsecured revolving credit facility and \$82.9 million for the purchase of the minority interest in our India joint venture in the prior year.

Capital Resources and Prospective Capital Requirements

Share Repurchase Program

On February 6, 2018, our Board of Directors authorized a share repurchase program pursuant to which we 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 us to acquire any particular amount of shares of Class A common stock and the program may be suspended or discontinued at any time. As of September 30, 2020, there was \$20.0 million available under the Share Repurchase Program.

Acquisitions

In the first quarter of 2019, we purchased the minority interest in our India joint-venture for \$82.9 million, which made our India joint-venture entity a wholly-owned subsidiary.

In the second quarter of 2019, we purchased a 60% interest in Manhattan SKMX, S. de R.L. de C.V. (“Skechers Mexico”), for a total consideration of \$120.6 million, net of cash acquired. Skechers Mexico is a joint venture that operates and generates sales in Mexico. As a result of this purchase, Skechers Mexico became a majority-owned subsidiary and the results are consolidated in our condensed consolidated financial statements from the date of the acquisition. The formation of the joint venture provides significant merchandising, supply chain and retail operations in Mexico. We completed the purchase price allocation during the quarter ended March 31, 2020. Pro forma results of operations have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to our condensed consolidated financial statements. For additional information see Note 7 – Acquisition in the Notes to Condensed Consolidated Financial Statements included in this quarterly report.

Financing Arrangements

As of September 30, 2020, outstanding short-term and long-term borrowings were \$812.0 million, of which \$487.5 million relates to our unsecured revolving credit facility and \$129.5 million for a loan for our domestic distribution center, \$65.4 million for a construction loan for our distribution center in China, \$78.6 million related to our operations in China, and \$19.0 million related to the an office building in Shanghai, China 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 related to our short-term and long-term borrowings as of the date of this quarterly report. See Note 5 – Short-Term and Long-Term Borrowings of the Condensed Consolidated Financial Statements for additional information.

We believe that anticipated cash flows from operations, available borrowings under our credit agreements, existing cash and investment balances and current financing arrangements will be sufficient to provide us with the liquidity necessary to fund our anticipated working capital and capital requirements for the next twelve months. Our future capital requirements will depend on many factors, including, but not limited to, duration and impact on overall consumer demand due to the COVID-19 pandemic, the global economy and the outlook for and return to 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 number and timing of new store openings, the success of our international operations, costs associated with constructing our China distribution center and distribution center equipment, available borrowings with China Construction Bank Corporation, the costs of upgrading our domestic and European distribution centers, the levels of advertising and marketing required to promote our footwear, the extent to which we invest in new product design and improvements to our existing product design, costs associated with constructing new corporate offices, and any potential acquisitions of other brands or companies. To the extent that available funds are insufficient to fund our future activities or we desire to increase liquidity, we may 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.

Income Taxes

As of September 30, 2020, we had approximately \$1,294.2 million in cash and cash equivalents, of which \$596.9 million, or 46%, was held outside the U.S. Of the \$596.9 million held by our non-U.S. subsidiaries, approximately \$299.6 million is available for repatriation to the U.S. without incurring U.S. federal income taxes and applicable non-U.S. income and withholding taxes in excess of the amounts accrued in our Condensed Consolidated Financial Statements as of September 30, 2020.

Our cash and cash equivalents held in the U.S. and cash provided from operations are sufficient to meet our liquidity needs in the U.S. for the next twelve months. However, in anticipation of our U.S. cash requirements and the need to provide payment of our provisional Transition Tax liability, we may begin repatriating certain funds held outside the U.S. for which all applicable U.S. federal and non-U.S. tax has been fully provided as of September 30, 2020. We have provided for the tax impact of expected distributions from our joint venture in China as well as from our subsidiary in Chile to our intermediate parent company in Switzerland. Otherwise, because of the need for cash for operating capital and continued overseas expansion, we do not foresee the need for any of our other 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. federal income taxes but may be subject to applicable non-U.S. income and withholding taxes, and to certain state income taxes.

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, 2019 filed with the SEC on March 1, 2020. Our critical accounting policies and estimates did not change materially during the quarter ended September 30, 2020.

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 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 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, 2019 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 many 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 2019 and the first nine months of 2020, exchange rate fluctuations did not have a material impact on our sales or inventory costs. We do not engage in hedging activities with respect to such exchange rate risk.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest rate fluctuations. As of September 30, 2020, we have \$128.4 million and \$683.6 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 \$3.4 million for the quarter ended September 30, 2020. 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 2020. The interest rate charged on our unsecured revolving credit facility is based on LIBOR, our domestic distribution center loan is based on the one month LIBOR, and our China DC Loan and China DC Revolving Loan are based on variable-rates provided by the People's Bank of China. Changes in these interest rates will have an effect on the interest charged on outstanding balances.

We may enter into derivative financial instruments such as interest rate swaps in order to limit our interest rate risk on our long-term debt. We will not enter into derivative transactions for speculative purposes. We had one derivative instrument in place as of September 30, 2020 to hedge the cash flows on our \$129.5 million variable rate debt on our domestic distribution center. This instrument was a variable to fixed derivative with a notional amount of \$129.5 million at September 30, 2020. Our average receive rate was one month LIBOR and the average pay rate was 0.795%. The rate swap agreement utilized by us effectively modifies our exposure to interest rate risk by converting our floating-rate debt to a fixed rate basis over the life of the loan, thus reducing the impact of interest-rate changes on future interest payments.

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

Assets and liabilities outside the United States are located in regions where we have subsidiaries or joint ventures: Asia, Central America, Europe, Middle East, North America, and South America. Our investments in foreign subsidiaries and joint ventures with a functional currency other than the U.S. dollar are generally considered long-term. Accordingly, we do not hedge these net investments. The fluctuation of foreign currencies resulted in a cumulative foreign currency translation loss of \$10.6 million and a cumulative foreign currency translation loss of \$65.9 million for the nine months ended September 30, 2020 and 2019, respectively, that are deferred and recorded as a component of accumulated other comprehensive income in stockholders' equity. A 200 basis point reduction in each of these exchange rates at September 30, 2020 would have reduced the values of our net investments by approximately \$59.8 million.

ITEM 4. CONTROLS AND PROCEDURES

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

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting during the three months ended September 30, 2020 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 Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements 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 Initial Determination 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 its Final Determination affirming that Skechers Twinkle Toes and Bobs Utopia 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 Utopia shoes do not infringe. On June 26, 2017 we filed our responsive brief, on February 8, 2018 the court heard oral argument, and on June 7, 2018 the Court requested supplemental briefing on certain issues. On October 30, 2018, the United States Court of Appeals for the Federal Circuit vacated portions of the ITC’s ruling and remanded the matter back to the ITC for further proceedings. Although Converse did not appeal the Commission’s non-infringement findings for Skechers Twinkle Toes and Bobs Utopia shoes to the Federal Circuit, Converse asked the Commission to reconsider its previous non-infringement findings on remand. On October 9, 2019, the ITC judge issued his Remand Initial Determination (the “RID”) finding that Converse did not have any rights in the subject intellectual property as to Skechers, and that Skechers Twinkle Toes, Bobs Utopia, and Hydee Hytop did not infringe Converse’s intellectual property but the discontinued Daddy’s Money would infringe, but only if Converse had rights in the subject intellectual property as to Skechers (which the ITC judge found that Converse did not). On October 22, 2019, the parties filed petitions seeking review of the RID. Converse did not, however, seek review of the finding in the RID that Skechers Twinkle Toes and Bobs Utopia do not infringe. On February 7, 2020, the full Commission decided to review the RID and outlined the issues it wanted briefed. The parties subsequently filed briefs on those issues and, on September 9, 2020, the full Commission issued its decision. In that decision, the Commission found that, although Converse had demonstrated enforceable rights in its Chuck Taylor Midsole Trademark, it had not proven that the Skechers Twinkle Toes, Bobs Utopia or Hydee Hytops infringe those rights, or otherwise established a violation of the applicable federal statutes by Skechers. While it is too early to predict the outcome of these legal proceedings or whether an adverse result in either or both of them would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend these legal matters vigorously.

Nike, Inc. v. Skechers USA, Inc. – On January 4, 2016, Nike filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:16-cv-0007, alleging that certain Skechers shoe designs (Men’s Burst, Women’s Burst, Women’s Flex Appeal, Men’s Flex Advantage, Girls’ Skech Appeal, and Boys’ Flex Advantage) infringe the claims of eight design patents. Nike seeks injunctive relief, disgorgement of Skechers’ profits, damages (including treble damages), pre-judgment and post-judgment interest, attorneys’ fees, and costs. In April and May 2016, we filed petitions with the United States Patent and Trademark Office’s Patent Trial and Appeal Board (the “PTAB”) for inter partes review of all eight design patents, seeking to invalidate those patents. In September and November 2016, the PTAB 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 on November 17, 2017. On June 28, 2018, the PTAB issued final decisions in the two inter partes review proceedings, rejecting the invalidity challenges made by our company in those proceedings. On June 4, 2018, the Court, over Nike’s opposition, granted our request for a claim construction hearing. On March 28, 2019, the Court issued an order declining to issue a claim construction at this stage of the proceedings, but it did not foreclose the issue, instead observing that it might be appropriate to address claim construction at a later stage. The parties have now completed discovery and have filed summary judgement motions. Nike has also withdrawn its claim for treble or enhanced damages. The summary judgment motions were heard on February 18, 2020, and on October 27, 2020, the Court issued its ruling. The Court granted Skechers’ motion for summary judgment of non-infringement as to three of the eight design patents at issue. The Court, however, concluded that whether Skechers had infringed any of the five remaining design patents presented issues for jury to resolve. The Court also denied Nike’s motion for summary judgment of validity as to the five remaining design patents, holding that Skechers’ invalidity challenges had to be resolved by the jury. While it is too early to predict the outcome of the case or whether an adverse result would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

Nike, Inc. v. Skechers USA, Inc. – On September 30, 2019, Nike filed an action against our company in the United States District Court for the Central District of California, Case No. 2:19-cv-08418, alleging that certain Skechers’ shoe designs (Skech-Air Atlas, Skech-Air 92, Skech-Air Stratus and Skech-Air Blast) infringe the claims of twelve design patents. Nike seeks injunctive relief, disgorgement of Skechers’ profits, damages (including treble damages), pre-judgment and post-judgment interest, attorneys’ fees, and costs. Skechers has filed its answer and the case is in the early stages. While it is too early to predict the outcome of the case or whether an adverse result would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

Nike, Inc. v. Skechers USA, Inc. – On October 28, 2019, Nike filed an action against our company in the United States District Court for the Central District of California, Case No. 2:19-cv-09230, alleging that certain Skechers’ shoe designs (Skech-Air Jumpin’ Dots and Skech-Air Mega) infringe the claims of two utility patents. Nike seeks injunctive relief, disgorgement of Skechers’ profits, damages (including treble damages), pre-judgment and post-judgment interest, attorneys’ fees, and costs. Skechers has answered the complaint and the case is in the early stages. While it is too early to predict the outcome of the case or whether an adverse result would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

Steamfitters Local 449 Pension Plan v. Skechers USA, Inc., Robert Greenberg and David Weinberg. – On October 20, 2017, the Steamfitters Local 449 Pension Plan filed a securities class action, on behalf of itself and purportedly on behalf of other shareholders who purchased Skechers stock in a five-month period in 2015, against our company and certain of its officers in the United States District Court for the Southern District of New York, case number 1:17-cv-08107. On April 4, 2018, the plaintiffs filed an amended and consolidated complaint and on July 24, 2018 plaintiffs filed a second amended and consolidated complaint. The lawsuit alleges that, between April 23 and October 22, 2015, we made materially false statements or omissions of material fact about the anticipated performance of our Domestic Wholesale segment and asserts claims for unspecified damages, attorneys’ fees and equitable relief based on two counts for alleged violations of federal securities laws. On November 21, 2018, we filed a motion to dismiss the complaint and, on September 23, 2019, the court granted our motion without leave to amend. On October 22, 2019, the plaintiffs appealed to the United States Court of Appeals for the Second Circuit, and, on October 20, 2020, that court affirmed the lower court’s order dismissing the case without leave to amend.

Police & Fire Ret. Sys. of the City of Detroit, et al. v. Greenberg, et al. – On July 26, 2019, our company and most of the Board of Directors were sued by several shareholders on behalf of our company in a derivative action in the Court of Chancery of the State of Delaware, Case No. 2019-0578. The complaint alleges breach of fiduciary duty and waste of corporate assets in connection with the grant of compensation to certain officers, and seeks disgorgement of the challenged compensation, compensatory damages to our company, unspecified equitable relief, and attorneys’ fees and costs. The parties have reached a stipulated settlement, which was subject to Court approval, and the Court entered judgment on the stipulated settlement on August 12, 2020. The settlement involved cancellation of the 2019 and 2020 equity awards to certain executives and certain corporate governance undertakings on behalf of the parties. The judgment became Final Court Approval on September 11, 2020, when the time to file a notice of appeal expired without any party filing such notice. As a result, we cancelled the 2019 and 2020 equity awards to certain executives and recognized a non-cash compensation charge of \$18.2 million during the quarter ended September 30, 2020.

Kathleen Houseman v. Robert Greenberg, et al. – On November 27, 2018, our company, the Board of Directors and CFO John Vandemore were sued by a shareholder on behalf of our company in a derivative action in the United States District Court for the District of Delaware, Case No 1:18-cv-01878. The complaint is based largely on the same underlying factual allegations as *In Re Skechers Securities Litigation*. By mutual agreement of the parties this case has been stayed pending the outcome of *In Re Skechers Securities Litigation* which has now been dismissed with prejudice on defendants’ motion. On June 2, 2020, plaintiff filed a voluntary notice of dismissal in this matter. This matter has now been dismissed.

Ealeen Wilk v. Skechers U.S.A., Inc. – On September 10, 2018, Ealeen Wilk filed a putative class action lawsuit against our company in the United States District Court for the Central District of California, Case No. 5:18-cv-01921, alleging violations of the California Labor Code, including unpaid overtime, unpaid wages due upon termination and unfair business practices. The complaint seeks actual, compensatory, special and general damages; penalties and liquidated damages; restitutionary and injunctive relief; attorneys’ fees and costs; and interest as permitted by law. On July 5, 2019, the court granted, in part, plaintiff’s motion for conditional certification of a Fair Labor Standards Act (FLSA) collective action. On July 22, 2019, the parties submitted to the court an agreed upon notice to be sent to members of the collective. The parties are delaying the mailing of the Belaire-West privacy opt out notice until after mediation. The parties have agreed to an informal stay of discovery and have stipulated to continue all relevant discovery and motion deadlines accordingly. The parties reached a settlement in principle as a result of a January 27, 2020 mediation but the details of the settlement still need to be worked out and the settlement has to be documented. In the event the settlement is not concluded successfully, it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe that we have meritorious defenses, vehemently deny the allegations, and intend to defend the case vigorously.

In addition to the matters included in our reserve for loss contingencies, we occasionally become involved in litigation arising from the normal course of business, and we are unable to determine the extent of any liability that may arise from any such unanticipated future litigation. We have no reason to believe that there is a reasonable possibility or a probability 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, 2019 and should be read in conjunction with the risk factors and other information disclosed in our 2019 annual report on Form 10-K that could have a material effect on our business, financial condition and results of operations.

The COVID-19 Pandemic Has Had, And Is Expected To Continue To Have, A Material Adverse Effect On Our Business And Results Of Operations.

Impact on Global Economy and on Our Business and Financial Performance

The COVID-19 pandemic has negatively impacted the global economy, disrupted consumer spending and global supply chains, and created significant volatility and disruption of financial markets. The COVID-19 pandemic has had, and we expect it to continue to have, a material adverse impact on our business and financial performance. The extent of this impact on our business and financial performance, including our ability to execute our near-term and long-term business strategies and initiatives in the expected time frame, is highly uncertain and cannot be predicted, as information is rapidly evolving with respect to the duration and severity of the pandemic. It will depend on future developments, including the duration and severity of the pandemic, related restrictions on travel, temporary store closure requirements and the related impact on consumer confidence and spending, and the extent of any recession resulting from the pandemic. At this time, we cannot reasonably estimate the duration and severity of the COVID-19 pandemic, or its overall impact on our business and financial performance.

Closures and Operational Restrictions of Our Retail Stores and Our Wholesale Customers' Stores

As a result of the COVID-19 pandemic, and in response to government mandates or recommendations, as well as decisions we have made to protect the health and safety of our employees, consumers and communities, beginning in March 2020, we (including our joint ventures), and our distributors, licensees and franchisees, temporarily closed a significant number of our company- and joint venture-owned retail stores, and our distributor-, licensee- and franchisee-owned retail stores, respectively, around the world. While over 90% of our company- and joint venture-owned retail stores and over 90% of our third party-owned retail stores around the world have reopened (although many with temporarily reduced operating hours) as of the filing date of this report, collectively, we may face recurring store closure requirements and other operational restrictions with respect to some or all of our physical locations for prolonged periods of time due to, among other factors, evolving or new increasingly stringent governmental restrictions including public health directives, quarantine policies or social distancing measures. In addition, many of our significant wholesale customers have closed many of their stores, which will adversely impact our revenues from these customers. As a result, our business and results of operations have been, and will continue to be, materially adversely impacted by store closures and operational restrictions.

Even as we and our wholesales customers reopen our stores, as the number of people affected by the COVID-19 pandemic continues to grow, consumer fear about becoming ill with the disease and recommendations and/or mandates from federal, state and local authorities to avoid large gatherings of people or self-quarantine may continue to increase, which has, and will continue to, adversely affect traffic to stores. Any significant reduction in consumer visits to, or spending at, our wholesale customers' stores and our retail stores, caused by the COVID-19 pandemic, and any decreased spending at stores caused by decreased consumer confidence and spending during and following this pandemic, has resulted in, and will continue to result in, a loss of sales and profits and other material adverse effects on our business and results of operations.

Disruptions or Delays in Our Supply Chain

Although not a material issue as of the filing date of this report, the COVID-19 pandemic has also caused delays in shipments of our products and could once again have the potential to significantly impact our supply chain if the factories that manufacture our products, the distribution centers where we manage our inventory, or the operations of our logistics and other service providers are disrupted, temporarily closed or experience worker shortages. More specifically, the majority of our manufacturers are located primarily in China and Vietnam. To date, the Chinese and Vietnamese governments have imposed certain restrictions on business operations and the movement of people and goods, including the temporary closure of some factories and businesses in China and restrictions on others in Vietnam, to limit the spread of COVID-19. As a result, we have seen and may yet again see disruptions or delays in shipments, and we may experience negative impacts to pricing of our products due to changes in availability of inventory, which could materially adversely impact our business and results of operations.

Office Closures, Focus of Key Personnel and Productivity of Employees

As a result of the COVID-19 pandemic, including related governmental guidance or requirements, beginning in March 2020, we also temporarily closed many of our corporate offices and other facilities, including our corporate headquarters in Manhattan Beach, California, and implemented a policy for many of our corporate employees to work remotely. While we began to allow a limited number of personnel back to our corporate offices with added safety measures and staggered work schedules in June, these evolving work place arrangements may negatively impact productivity and cause other disruptions to our business.

In addition, our management team is focused on mitigating the adverse effects of the COVID-19 pandemic, which has required and will continue to require a large investment of time and resources across the entire company, thereby diverting their attention from other priorities that existed prior to the outbreak of the pandemic. If these conditions worsen, or last for an extended period of time, our ability to manage our business may be impaired, and operational risks and other risks facing us even prior to the COVID-19 pandemic may be elevated.

The COVID-19 Pandemic Has Had A Negative Impact On The Global Economy, And Our Sales Are Influenced By Economic Conditions That Impact Consumer Spending And Consumer Confidence.

Footwear is a cyclical industry that is dependent upon the overall level of consumer spending and consumer confidence. Consumer purchases of discretionary items, including our products, generally decline during periods when disposable income is adversely affected, there is economic uncertainty or volatility or during recessionary periods. Our wholesale customers anticipate and respond to adverse changes in economic conditions and uncertainty by closing doors, reducing inventories, canceling orders or increasing promotional activity. Our retail stores are also affected by these conditions, which may lead to a decline in consumer traffic and spending in these stores as they reopen. As a result, factors that diminish consumer spending and confidence in any of the markets in which we compete, particularly deterioration in general economic conditions, consumer credit availability, consumer debt levels, inflation, the impact of foreign exchange fluctuations on tourism and tourist spending, volatility in investment returns, fear of unemployment, increases in energy costs or tax or interest rates, housing market downturns, fear about and impact of pandemic illness (such as the impact of the COVID-19 pandemic, including reduced store traffic and widespread temporary store closures), and other factors such as acts of war, natural disasters or terrorist or political events that impact consumer confidence, have reduced, and may continue to reduce (with respect to the COVID-19 pandemic), our sales and may continue to have a material adverse effect on our operations and financial condition through their negative impact on our wholesale customers as well as decreased spending in our retail stores and potentially via our e-commerce business.

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

During the nine months ended September 30, 2020 and 2019, our net sales to our five largest customers accounted for approximately 8.9% and 9.7% of total net sales, respectively. No one customer accounted for more than 10.0% of outstanding accounts receivable balance at September 30, 2020 or December 31, 2019. 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. Store closures or re-closures, decreased foot traffic and economic recession resulting from the COVID-19 pandemic has, and will likely continue to, adversely affect our performance and could continue to adversely affect the financial condition of many of our customers. If any major existing customer ceases or decreases its purchases from us, cancels its orders, delays or defaults on its payment obligations to us, reduces the floor space, assortments, fixtures or advertising for our products or changes its manner of doing business with us for any reason, such as due to store closures, decreased foot traffic or recession resulting from the COVID-19 pandemic, such actions may adversely affect our business and financial condition. 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, and we have recently experienced delays in payments from some of our customers and others have gone bankrupt. 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 due to any of the foregoing reasons, our business and financial condition could be harmed.

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

Our footwear products are currently manufactured by independent contract manufacturers. During the nine months ended September 30, 2020 and 2019, the top five manufacturers of our manufactured products produced approximately 42.2% and 41.1% of our total purchases, respectively. One manufacturer accounted for 20.6% of total purchases for the nine months ended September 30, 2020 and the same manufacturer accounted for 15.8% of total purchases for the same period in 2019.

We compete with other footwear companies for production facilities, and we do not have long-term contracts with any of our contract manufacturers. Under our current arrangements with them, these manufacturers generally may unilaterally terminate their relationship with us at any time. 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 and financial condition would be harmed.

While not a material issue as of the filing date of this report, the COVID-19 pandemic previously led to the Chinese and Vietnamese governments imposing temporary closures of some of our factories in China and restrictions on others in Vietnam that caused delays in shipment of our products. We may encounter similar challenges yet again with these manufacturers, or new difficulties could arise with our manufacturers or any raw material suppliers on which our manufacturers rely, including prolonged manufacturing or transportation disruptions due to public health conditions, such as the recent COVID-19 pandemic, reductions in the availability of production capacity due to government imposed restrictions, 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 and results of operations.

We Have Debt And Interest Payment Requirements At Levels That May Restrict Our Future Operations.

As of September 30, 2020, we had \$812.0 million of debt and \$250.0 million of additional borrowings available under our unsecured revolving credit facility. In March 2020, as a precautionary measure to maximize liquidity and to increase available cash on hand, we borrowed \$490.0 million on our unsecured revolving credit facility. Our debt requires us to dedicate cash flow from operations to the payment of interest and principal due under our debt, which reduces funds available for other business purposes and results in us having lower net income than we would otherwise have had. This dedicated use of cash could impact our ability to successfully compete by, for example:

- increasing our vulnerability to general adverse economic and industry conditions, including any adverse conditions resulting from the COVID-19 pandemic, such as temporary and permanent store closures, decreased foot traffic and recession;
- limiting our flexibility in planning for or reacting to changes in our business and the general retail environment;
- placing us at a competitive disadvantage compared to some of our competitors that have less debt; and
- limiting our ability to obtain additional financing required to fund working capital and capital expenditures and for other general corporate purposes.

In addition, a substantial portion of our short and long-term borrowings are made at variable rates that use LIBOR as a benchmark for establishing the interest rate. LIBOR is the subject of recent proposals for reform. On July 27, 2017, the United Kingdom's Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. These reforms may cause LIBOR to cease to exist, new methods of calculating LIBOR to be established or the establishment of an alternative reference rate(s). Changes in market interest rates may influence our financing costs and the valuation of derivative contracts and could reduce our cash flows and restrict our future operations.

One Principal Stockholder Is Able To Substantially Control All Matters Requiring Approval By Our Stockholders And Another Stockholder Is Able To Exert Significant Influence Over All Matters Requiring A Vote Of Our Stockholders, And Their Interests May Differ From The Interests Of Our Other Stockholders.

As of September 30, 2020, our Chairman of the Board and Chief Executive Officer, Robert Greenberg, beneficially owned 85.4% of our outstanding Class B common shares, members of Mr. Greenberg's immediate family beneficially owned an additional 9.0% of our outstanding Class B common shares, and Gil Schwartzberg, trustee of several trusts formed by Mr. Greenberg and his wife for estate planning purposes, beneficially owned 29.0% of our outstanding Class B common shares. The holders of Class A common shares and Class B common shares have identical rights except that holders of Class A common shares are entitled to one vote per share while holders of Class B common shares are entitled to ten votes per share on all matters submitted to a vote of our stockholders. As a result, as of September 30, 2020, Mr. Greenberg beneficially owned 37.8% 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 17.8% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Messrs. Greenberg and Schwartzberg are each able to exert significant influence over, all matters requiring approval by our stockholders. Matters that require the approval of our stockholders include the election of directors and the approval

of mergers or other business combination transactions. Mr. Greenberg also has significant influence over our management and operations. As a result of such influence, certain transactions are not likely without the approval of Messrs. Greenberg and Schwartzberg, including proxy contests, tender offers, open market purchase programs or other transactions that can give our stockholders the opportunity to realize a premium over the then-prevailing market prices for their shares of our Class A common shares. Because Messrs. Greenberg's and Schwartzberg's interests may differ from the interests of the other stockholders, their ability to substantially control or significantly influence, respectively, actions requiring stockholder approval, may result in our company taking action that is not in the interests of all stockholders. The differential in the voting rights may also adversely affect the value of our Class A common shares to the extent that investors or any potential future purchaser view the superior voting rights of our Class B common shares to have value.

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

(a) Recent Sales of Unregistered Securities: None.

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

(c) Issuer Purchases of Equity Securities: None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statements from the quarterly report on Form 10-Q of Skechers U.S.A., Inc. for the quarter ended September 30, 2020 formatted in inline XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Earnings; (iii) the Condensed Consolidated Statements of Comprehensive Income; (iv) the Condensed Consolidated Statements of Equity; (v) the Condensed Consolidated Statements of Cash Flows; and (vi) the Notes to the Condensed Consolidated Financial Statements
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* 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: November 6, 2020

SKECHERS U.S.A., INC.

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

CERTIFICATION

I, Robert Greenberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended September 30, 2020 of Skechers U.S.A., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2020

/s/ Robert Greenberg
Robert Greenberg
Chief Executive Officer

CERTIFICATION

I, John Vandemore, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended September 30, 2020 of Skechers U.S.A., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2020

/s/ John Vandemore
John Vandemore
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Skechers U.S.A., Inc. (the "Company") on Form 10-Q for the three months ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the date indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Greenberg

Robert Greenberg
Chief Executive Officer
(Principal Executive Officer)
November 6, 2020

/s/ John Vandemore

John Vandemore
Chief Financial Officer
(Principal Financial and Accounting Officer)
November 6, 2020

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.