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 March 31, 2023

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	**95-4376145**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
228 Manhattan Beach Blvd. **Manhattan Beach, California**	**90266**
(Address of principal executive office)	(Zip Code)

(310) 318-3100

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol	Name of each exchange on which registered
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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 April 27, 2023, 134,270,786 shares of the registrant's Class A Common Stock, $0.001 par value per share, were outstanding.

As of April 27, 2023, 20,463,521 shares of the registrant's Class B Common Stock, $0.001 par value per share, were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

SKECHERS U.S.A., INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands)	As of March 31, 2023	As of December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 760,040	$ 615,733
Short-term investments	89,507	102,166
Trade accounts receivable, less allowances of $61,984 and $59,472	1,052,687	848,287
Other receivables	82,948	86,036
Inventory	1,502,247	1,818,016
Prepaid expenses and other	222,556	176,035
Total current assets ($1,061,021 and $1,014,962 related to VIEs)	3,709,985	3,646,273
Property, plant and equipment, net	1,377,588	1,345,370
Operating lease right-of-use assets	1,239,222	1,200,565
Deferred tax assets	461,614	454,190
Long-term investments	80,743	70,498
Goodwill	93,497	93,497
Other assets, net	81,822	83,094
Total non-current assets ($608,819 and $598,973 related to VIEs)	3,334,486	3,247,214
TOTAL ASSETS	$ 7,044,471	$ 6,893,487
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 892,057	$ 957,384
Accrued expenses	269,225	294,143
Operating lease liabilities	247,411	238,694
Current installments of long-term borrowings	100,469	103,184
Short-term borrowings	30,471	19,635
Total current liabilities ($538,025 and $568,158 related to VIEs)	1,539,633	1,613,040
Long-term operating lease liabilities	1,092,711	1,063,672
Long-term borrowings	230,275	216,488
Deferred tax liabilities	8,722	8,656
Other long-term liabilities	126,835	120,045
Total non-current liabilities ($310,148 and $293,726 related to VIEs)	1,458,543	1,408,861
Total liabilities	2,998,176	3,021,901
Commitments and contingencies (Note 10)		
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; 134,259 and 134,473 shares issued and outstanding	134	134
Class B Common Stock, $0.001 par value; 75,000 shares authorized; 20,474 and 20,810 shares issued and outstanding	20	21
Additional paid-in capital	383,540	403,799
Accumulated other comprehensive loss	(80,217)	(84,897)
Retained earnings	3,411,374	3,250,931
Skechers U.S.A., Inc. equity	3,714,851	3,569,988
Noncontrolling interests	331,444	301,598
Total stockholders' equity	4,046,295	3,871,586
TOTAL LIABILITIES AND EQUITY	$ 7,044,471	$ 6,893,487

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings
(Unaudited)

(in thousands, except per share data)	Three Months Ended March 31, 2023	2022
Sales	$ 2,001,928	$ 1,819,594
Cost of sales	1,023,349	995,431
Gross profit	978,579	824,163
Operating expenses		
Selling	128,560	108,209
General and administrative	626,442	540,050
Total operating expenses	755,002	648,259
Earnings from operations	223,577	175,904
Other income (expense)	9,923	(5,746)
Earnings before income taxes	233,500	170,158
Income tax expense	43,216	33,992
Net earnings	190,284	136,166
Less: Net earnings attributable to noncontrolling interests	29,841	14,943
Net earnings attributable to Skechers U.S.A., Inc.	$ 160,443	$ 121,223
Net earnings per share attributable to Skechers U.S.A., Inc.		
Basic	$ 1.03	$ 0.78
Diluted	$ 1.02	$ 0.77
Weighted-average shares used in calculating net earnings per share attributable to Skechers U.S.A., Inc.		
Basic	155,140	155,996
Diluted	156,755	157,448

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(in thousands)	Three Months Ended March 31, 2023	2022
Net earnings	$ 190,284	$ 136,166
Other comprehensive income, net of tax		
Net unrealized (loss) gain on derivative contract	(1,416)	5,843
Gain on foreign currency translation adjustment	6,851	1,489
Comprehensive income	195,719	143,498
Less: Comprehensive income attributable to noncontrolling interests	30,596	20,021
Comprehensive income attributable to Skechers U.S.A., Inc.	$ 165,123	$ 123,477

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Equity
(Unaudited)

	Shares		Amount							
(in thousands)	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Skechers U.S.A., Inc. equity	Noncontrolling interests	Total stockholders' equity
Balance at December 31, 2022	134,473	20,810	$ 134	$ 21	$ 403,799	$ (84,897)	$ 3,250,931	$ 3,569,988	$ 301,598	$ 3,871,586
Net earnings	—	—	—	—	—	—	160,443	160,443	29,841	190,284
Foreign currency translation adjustment	—	—	—	—	—	4,680	—	4,680	2,171	6,851
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(750)	(750)
Net unrealized loss on derivative contract	—	—	—	—	—	—	—	—	(1,416)	(1,416)
Stock compensation expense	—	—	—	—	14,252	—	—	14,252	—	14,252
Shares issued under the incentive award plan	225	—	—	—	—	—	—	—	—	—
Shares redeemed for employee tax withholdings	(99)	—	—	—	(4,498)	—	—	(4,498)	—	(4,498)
Repurchases of common stock	(676)	—	(1)	—	(30,013)	—	—	(30,014)	—	(30,014)
Conversion of Class B Common Stock into Class A Common Stock	336	(336)	1	(1)	—	—	—	—	—	—
Balance at March 31, 2023	134,259	20,474	$ 134	$ 20	$ 383,540	$ (80,217)	$ 3,411,374	$ 3,714,851	$ 331,444	$ 4,046,295
Balance at December 31, 2021	135,107	20,939	$ 135	$ 21	$ 429,608	$ (48,323)	$ 2,877,903	$ 3,259,344	$ 282,728	$ 3,542,072
Net earnings	—	—	—	—	—	—	121,223	121,223	14,943	136,166
Foreign currency translation adjustment	—	—	—	—	—	1,501	—	1,501	(12)	1,489
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(4,650)	(4,650)
Net unrealized gain on derivative contract	—	—	—	—	753	—	—	753	5,090	5,843
Stock compensation expense	—	—	—	—	17,967	—	—	17,967	—	17,967
Shares issued under the incentive award plan	566	—	1	—	(1)	—	—	—	—	—
Shares redeemed for employee tax withholdings	(192)	—	—	—	(7,971)	—	—	(7,971)	—	(7,971)
Repurchases of common stock	(652)	—	(1)	—	(24,999)	—	—	(25,000)	—	(25,000)
Balance at March 31, 2022	134,829	20,939	$ 135	$ 21	$ 415,357	$ (46,822)	$ 2,999,126	$ 3,367,817	$ 298,099	$ 3,665,916

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	Three Months Ended March 31, 2023	2022
Cash flows from operating activities		
Net earnings	$ 190,284	$ 136,166
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	41,424	36,516
Provision for bad debts and returns	9,792	14,024
Stock compensation	14,252	17,967
Deferred income taxes	(6,146)	5,365
Net foreign currency adjustments	(9,605)	2,281
Changes in operating assets and liabilities		
Receivables	(185,430)	(280,334)
Inventory	325,478	24,012
Other assets	(76,533)	3,515
Accounts payable	(70,945)	(65,404)
Other liabilities	2,549	(28,871)
Net cash provided by (used in) operating activities	235,120	(134,763)
Cash flows from investing activities		
Capital expenditures	(71,213)	(89,398)
Purchases of investments	(37,942)	(17,992)
Proceeds from sales and maturities of investments	40,356	32,178
Net cash used in investing activities	(68,799)	(75,212)
Cash flows from financing activities		
Repayments on long-term borrowings	(3,875)	(18,642)
Proceeds from long-term borrowings	14,947	2,247
Net proceeds from short-term borrowings	10,836	49,050
Payments for employee taxes related to stock compensation	(4,498)	(7,971)
Repurchases of common stock	(30,014)	(25,000)
Distributions to noncontrolling interests	(750)	(4,650)
Net cash used in financing activities	(13,354)	(4,966)
Effect of exchange rate changes on cash and cash equivalents	(8,660)	8,566
Net change in cash and cash equivalents	144,307	(206,375)
Cash and cash equivalents at beginning of the period	615,733	796,283
Cash and cash equivalents at end of the period	$ 760,040	$ 589,908
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest	$ 4,910	$ 4,402
Income taxes, net	25,687	29,213
Non-cash transactions		
Right-of-use assets exchanged for lease liabilities	86,643	61,451

See accompanying notes to unaudited condensed consolidated financial statements.

(1) General

BASIS OF PRESENTATION

The accompanying unaudited 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 ("GAAP"), for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all normal adjustments and accruals considered necessary to provide a fair statement of the results of operations for the interim periods presented have been included. The December 31, 2022 balance sheet data was derived from audited financial statements; however, the accompanying notes to condensed consolidated financial statements do not include all of the annual disclosures required under GAAP and should be read in conjunction with the Company's 2022 Annual Report on Form 10-K. Certain reclassifications have been made to the condensed consolidated financial statements in prior years to conform to the current year presentation.

NONCONTROLLING INTERESTS

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Company's products throughout Mexico, Asia and the Middle East or to construct the Company's domestic distribution facility. These joint ventures are variable interest entities ("VIE"), and the Company is considered the primary beneficiary. This determination is based on the relationships between the Company and the VIE, including management agreements, governance documents and other contractual arrangements. Specifically, the Company has both of the following characteristics: (a) the power to direct the activities of the entity 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. The assets and liabilities and results of operations of these entities are included in the Company's condensed consolidated financial statements, even though the Company may not hold a majority equity interest.

The Company continues to reassess these relationships quarterly. The assets of these joint ventures are restricted, as 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value hierarchy as defined by applicable accounting standards prioritizes the use of inputs used in valuation techniques into the following three levels:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Other observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that cannot be corroborated by market data that reflect the reporting entity's own assumptions.

The Company's Level 1 investments primarily include money market funds, United States ("U.S.") Treasury securities and actively traded mutual funds; Level 2 investments primarily include corporate notes and bonds, asset-backed securities and U.S. Agency securities; and the Company does not currently have any Level 3 assets or liabilities. The Company has one Level 2 derivative instrument which is an interest rate swap related to the refinancing of its U.S. distribution center (see Note 4 – Financial Commitments) classified as other assets, net. 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.

The carrying amount of receivables, payables and other amounts arising out of the normal course of business 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 on current rates and terms available to the Company for similar debt.

DERIVATIVE INSTRUMENTS

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, the Company uses an interest rate swap as part of its interest rate risk management strategy. The Company's interest rate swap, designated as a cash flow hedge, involves the receipt of variable amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. By utilizing an interest rate swap, the Company is exposed to credit-related losses in the event that the counterparty fails to perform under the terms of the derivative contract. To mitigate this risk, the Company enters into derivative contracts with major financial institutions based upon credit ratings and other factors. The Company continually assesses the creditworthiness of its counterparties. As of March 31, 2023, all counterparties to the interest rate swap had performed in accordance with their contractual obligations.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2020, the FASB issued ASU 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,* as amended and supplemented by subsequent ASUs (collectively, "ASU 2020-04" and "ASU 2022-06"), 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 borrowing instruments, which use LIBOR as a reference rate, and is available through December 31, 2024. The Company has evaluated this ASU and does not expect its adoption to have a material impact on its condensed consolidated financial statements.

(2) Cash, Cash Equivalents, Short-term and Long-term Investments

The following tables show the Company's cash, cash equivalents, short-term and long-term investments by significant investment category:

	As of March 31, 2023				
(in thousands)	Adjusted Cost	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	$ 680,416	$ 680,416	$ 680,416	$ —	$ —
Level 1					
Money market funds	73,375	73,375	73,375	—	—
U.S. Treasury securities	17,552	17,552	6,249	11,303	—
Mutual funds	N/A	5,268	—	—	5,268
Total level 1	90,927	96,195	79,624	11,303	5,268
Level 2					
Corporate notes and bonds	97,425	97,425	—	76,066	21,359
Asset-backed securities	4,669	4,669	—	135	4,534
U.S. Agency securities	3,013	3,013	—	2,003	1,010
Total level 2	105,107	105,107	—	78,204	26,903
Total	$ 876,450	$ 881,718	$ 760,040	$ 89,507	$ 32,171

	As of December 31, 2022				
(in thousands)	Adjusted Cost	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	$ 539,730	$ 539,730	$ 539,730	$ —	$ —
Level 1					
Money market funds	71,503	71,503	71,503	—	—
U.S. Treasury securities	18,201	18,201	2,000	16,201	—
Mutual funds	N/A	5,893	—	—	5,893
Total level 1	89,704	95,597	73,503	16,201	5,893
Level 2					
Corporate notes and bonds	101,959	101,959	2,500	85,731	13,728
Asset-backed securities	4,641	4,641	—	234	4,407
Total level 2	106,600	106,600	2,500	85,965	18,135
Total	$ 736,034	$ 741,927	$ 615,733	$ 102,166	$ 24,028

The Company's investments consist of U.S. Treasury securities, corporate notes and bonds and asset-backed securities, which the Company has the intent and ability to hold to maturity and therefore are classified as held-to-maturity. The Company holds mutual funds in its deferred compensation plan which are classified as trading securities. 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 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. Included in long-term investments on the Condensed Consolidated Balance Sheets are company owned life insurance contracts of $48.6 million and $46.5 million as of March 31, 2023 and December 31, 2022. Interest income was $2.6 million and $1.2 million for three months ended March 31, 2023 and 2022.

When evaluating an investment for its current expected credit losses, the Company reviews factors such as historical experience with defaults, losses, credit ratings, term and macroeconomic trends, including current conditions and forecasts to the extent they are reasonable and supportable.

(3) Accrued Expenses

Accrued expenses were as follows:

(in thousands)		As of March 31, 2023		As of December 31, 2022
Accrued payroll, taxes, and other	$	172,822	$	143,664
Return reserve liability		66,338		60,482
Accrued inventory purchases		30,065		89,997
Accrued expenses	$	269,225	$	294,143

(4) Financial Commitments

The Company had $2.7 million outstanding letters of credit as of March 31, 2023 and December 31, 2022, and approximately $30.5 million and $19.6 million in short-term borrowings as of March 31, 2023 and December 31, 2022. Interest expense was $5.1 million and $4.5 million for the three months ended March 31, 2023 and 2022.

Long-term borrowings were as follows:

(in thousands)		As of March 31, 2023		As of December 31, 2022
HF-T1 Distribution Center Loan	$	129,505	$	129,505
HF-T2 Distribution Center Construction Loan		73,017		72,098
China Distribution Center Construction Loan		38,569		41,329
China Distribution Center Expansion Construction Loan		27,452		14,507
China Operational Loans		53,910		54,361
Other		8,291		7,872
Subtotal		330,744		319,672
Less: Current installments		100,469		103,184
Total long-term borrowings	$	230,275	$	216,488

Revolving Credit Facility

The Company maintains a revolving credit facility to manage liquidity, including working capital and capital expenditures. On December 15, 2021, the Company amended its $500.0 million senior, unsecured revolving credit agreement dated November 21, 2019 (the "Amended Credit Agreement"). The Amended Credit Agreement expands its senior, unsecured credit facility to $750.0 million, which 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 $50.0 million. The Amended Credit Agreement extends the maturity date of the credit agreement, which was due to expire on November 21, 2024, to December 15, 2026. As of March 31, 2023, there was no outstanding balance under the revolving credit facility. The unused credit capacity was $747.3 million as of March 31, 2023 and December 31, 2022.

The Company is required to maintain a maximum total adjusted net leverage ratio of 3.75:1, except in the event of an acquisition in which case the ratio may be increased at the Company's election to 4.25:1 for the quarter in which such acquisition occurs and for the next three quarters thereafter. The Company was in compliance with the financial covenants as of March 31, 2023.

In addition, the Company had $30.5 million and $19.6 million outstanding under short-term borrowings as of March 31, 2023 and December 31, 2022. Included in these amounts are $25.0 million and $14.5 million as of March 31, 2023 and December 31, 2022, related to our subsidiary in India, which has a line of credit of $36.4 million and a weighted average interest rate of 8.6% for the three months ended March 31, 2023.

HF-T1 Distribution Center Loan

To finance construction and improvements to the Company's North American distribution center, the Company's joint venture with HF Logistics I, LLC ("HF"), HF Logistics-SKX, LLC (the "JV"), through a wholly-owned subsidiary of the JV ("HF-T1"), entered into a $129.5 million construction loan agreement which matures on March 18, 2025 (the "HF-T1 2020 Loan") with interest of LIBOR Daily Floating Rate plus a margin of 1.75% per annum.

HF-T1 also entered into an ISDA master agreement (together with the schedule related thereto, the “Swap Agreement”) with Bank of America, N.A. 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”) as amended (the “Swap Agreement Amendment”) on March 18, 2020 with Bank of America, N.A with a maturity date of March 18, 2025. The Swap Agreement Amendment fixes the effective interest rate on the HF-T1 2020 Loan at 2.55% per annum. The HF-T1 2020 Loan and 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 revolving credit facility. The obligations of the JV under this loan are guaranteed by HF.

The Interest Rate Swap involves the receipt of variable amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. As of both March 31, 2023 and December 31, 2022, the Interest Rate Swap had an aggregate notional amount of $129.5 million. Under the terms of the Swap Agreement Amendment, the Company will pay a weighted-average fixed rate of 0.795% on the notional amount and receive payments from the counterparty based on the 30-day LIBOR rate, effectively modifying the Company’s exposure to interest rate risk by converting floating-rate debt to a fixed rate of 4.08%.

HF-T2 Distribution Center Construction Loan

To finance the expansion of the Company’s North American distribution center, the JV, through HF Logistics-SKX T2, LLC, a wholly-owned subsidiary of the JV (“HF-T2”) entered into a construction loan agreement of up to $73.0 million which matures on April 3, 2025. Under the 2020 Construction Loan Agreement, the interest rate per annum on the HF-T2 2020 Construction Loan based on the Bloomberg Short-Term Bank Yield Index (“BSBY”) 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 weighted-average annual interest rate on borrowings under the HF-T2 Distribution Center Construction Loan was approximately 6.42% during the three months ended March 31, 2023. The obligations of the JV under this loan are guaranteed by TGD Holdings I, LLC, which is an affiliate of HF.

China Distribution Center Construction Loan

The Company entered into a 700.0 million yuan loan agreement to finance the construction of its distribution center in China which matures on September 28, 2023. The interest rate at March 31, 2023 was 4.00% and may increase or decrease over the life of the loan, and will be evaluated every 12 months. Beginning in 2021, the principal of the loan is repaid in semi-annual installments of variable amounts. The obligations of the China distribution center construction loan, entered through the Company’s Taicang Subsidiary are jointly and severally guaranteed by the Company’s China joint venture. As of March 31, 2023 and December 31, 2022, the outstanding balance under this loan included approximately $38.6 million and $41.3 million classified as current installments of long-term borrowings in the Company’s condensed consolidated balance sheets.

China Distribution Center Expansion Construction Loan

On October 18, 2022, the Company entered into a loan agreement for 1.1 billion yuan with Bank of China Co., Ltd to finance the construction of its distribution center expansion in China. Interest is paid quarterly. The interest rate at March 31, 2023 was 3.4% and may increase or decrease over the life of the loan, and will be evaluated every 12 months. This loan matures 10 years from the initial receipt of funds. Beginning in 2026, the principal of the loan will be repaid in semi-annual installments of variable amounts. The obligations of this loan entered through the Company’s Taicang Subsidiary are jointly and severally guaranteed by the Company’s China joint venture.

China Operational Loans

The Company has certain secured credit facilities to support the operations of its China joint venture. The balance of working capital loans was approximately $53.9 million with interest rates ranging from 2.90% to 3.05% per annum as of March 31, 2023. The balance of working capital loans as of December 31, 2022 was approximately $54.4 million with interest rates ranging from 2.90% to 3.41% per annum. As of March 31, 2023 and December 31, 2022, the outstanding balances under these working capital loans included $53.9 and $54.4 million classified as current borrowings in the Company’s condensed consolidated balance sheets.

(5) Stockholders Equity and Stock Compensation

SHARE REPURCHASE PROGRAM

On January 31, 2022, the Company’s Board of Directors authorized a share repurchase program (the “Share Repurchase Program”), pursuant to which the Company may, from time to time, purchase shares of its Class A common stock, for an aggregate repurchase price not to exceed $500 million. The Share Repurchase Program expires on January 31, 2025 and does not obligate the Company to acquire any particular amount of shares. As of March 31, 2023, there was $395.7 million remaining to repurchase shares under the Share Repurchase Program.

The following table provides a summary the Company's stock repurchase activities:

	Three Months Ended March 31,	
	2023	2022
Shares repurchased	676,190	651,774
Average cost per share	$ 44.39	$ 38.36
Total cost of shares repurchased (in thousands)	$ 30,014	$ 25,000

INCENTIVE AWARD PLAN

In the three months ended March 31, 2023, the Company granted restricted stock with time-based vesting as well as performance-based awards. The performance-based awards include a market condition tied to the Company's total shareholder return in relation to its peer companies as well as a financial performance condition tied to annual earnings per share ("EPS") growth. The vesting and ultimate payout of performance awards is determined at the end of the three-year performance period and can vary from zero to 200% based on actual results. As of March 31, 2023, there were 2,213,612 shares available for grant as equity awards under the 2017 Incentive Award Plan if target levels are achieved for performance-based awards and 1,271,162 if maximum levels are achieved.

The Company issued the following stock-based instruments:

	Three Months Ended March 31,			
	2023		2022	
	Granted	Weighted-Average Grant-Date Fair Value	Granted	Weighted-Average Grant-Date Fair Value
Restricted stock	300,970	$ 43.77	1,221,950	$ 38.58
Performance-based restricted stock	121,225	$ 43.34	116,250	$ 42.46
Market-based restricted stock	121,225	$ 59.71	116,250	$ 58.85

A summary of the status and changes of the Company's unvested shares is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Unvested at December 31, 2022	3,423,902	$ 40.62
Granted	543,420	47.23
Vested	(224,750)	38.82
Cancelled	(7,500)	43.36
Unvested at March 31, 2023	3,735,072	$ 41.68

The Company determines the fair value of restricted stock awards and any performance-related components based on the closing market price of the Company's common stock on the date of grant. For share-based awards with a performance-based vesting requirement, the Company evaluates the probability of achieving the performance criteria throughout the performance period and will adjust stock compensation expense up or down based on its estimated probable outcome. Certain performance-based awards contain market condition components which are valued on the date of grant using a Monte Carlo simulation model.

For the three months ended March 31, 2023 and 2022, the Company recognized $13.5 million and $17.2 million of incentive stock compensation expense. As of March 31, 2023, the unamortized stock compensation of $102.3 million is expected to be recognized over a weighted-average period of 1.77 years.

STOCK PURCHASE PLAN

A total of 5,000,000 shares of Class A Common Stock are available for sale under the 2018 Employee Stock Purchase Plan ("2018 ESPP"). The 2018 ESPP provides eligible employees of the Company and its subsidiaries the opportunity to purchase shares of the Company's Class A Common Stock at a purchase price equal to 85% of the fair market value on the first trading day or last trading day of each purchase period, whichever is lower. Eligible employees can invest up to 15% of their compensation through payroll deductions during each purchase period. The purchase price discount and the look-back feature cause the 2018 ESPP to be compensatory and the Company recognizes compensation expense, which is computed using the Black-Scholes valuation model.

For the three months ended March 31, 2023 and 2022, the Company recognized $0.7 million and $0.8 million of ESPP stock compensation expense. As of March 31, 2023, there were 3,815,746 shares available for sale under the 2018 ESPP.

(6) Earnings Per Share

Basic EPS and diluted EPS are calculated by dividing net earnings by the following: for basic EPS, the weighted-average number of common shares outstanding for the period; and for diluted EPS, the sum of the weighted-average number of both outstanding common shares and potentially dilutive common shares using the treasury stock method.

The calculation of EPS is as follows:

	Three Months Ended March 31,	
(in thousands, except per share data)	2023	2022
Net earnings attributable to Skechers U.S.A., Inc.	$ 160,443	$ 121,223
Weighted-average common shares outstanding, basic	155,140	155,996
Dilutive effect of nonvested shares	1,615	1,452
Weighted-average common shares outstanding, diluted	156,755	157,448
Anti-dilutive common shares excluded above	10	27
Net earnings per share attributable to Skechers U.S.A., Inc.		
Basic	$ 1.03	$ 0.78
Diluted	$ 1.02	$ 0.77

(7) Income Taxes

The tax provisions for the three months ended March 31, 2023 and 2022 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 (loss) before income taxes. In the foreign jurisdictions in which the Company has operations, the applicable statutory rates range from 0.0% to 35.0%, which is on average significantly lower than the U.S. federal and state combined statutory rate of approximately 25%. The Company's effective tax rate was 18.5% and 20.0% for the three months ended March 31, 2023 and 2022. The decrease for the quarterly rates is primarily due to the positive impact of discrete items.

(8) Related Party Transactions

The Skechers Foundation (the "Foundation") is a 501(c)(3) non-profit entity and not a subsidiary or otherwise affiliated with the Company. 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 officers and directors of the Foundation. During the three months ended March 31, 2023, the Board of Directors approved a contribution of $0.5 million. For the three months ended March 31, 2022, the Company made contributions of $0.5 million.

(9) Segment and Geographic Information

The Company has two reportable segments, Wholesale and Direct-to-Consumer. Management evaluates segment performance based primarily on sales and gross margin. Other costs and expenses of the Company are analyzed on an aggregate basis and not allocated to the segments. The following summarizes the Company's operations by segment and geographic area:

Segment Information

	Three Months Ended March 31,	
(in thousands)	2023	2022
Wholesale sales	$ 1,294,558	$ 1,251,306
Gross profit	511,999	454,960
Gross margin	*39.6%*	*36.4%*
Direct-to-Consumer sales	$ 707,370	$ 568,288
Gross profit	466,580	369,203
Gross margin	*66.0%*	*65.0%*
Total sales	$ 2,001,928	$ 1,819,594
Gross profit	978,579	824,163
Gross margin	*48.9%*	*45.3%*

(in thousands)	As of March 31, 2023	As of December 31, 2022
Identifiable assets		
Wholesale	$ 3,759,816	$ 3,682,860
Direct-to-Consumer	3,284,655	3,210,627
Total	$ 7,044,471	$ 6,893,487

	Three Months Ended March 31,	
(in thousands)	2023	2022
Additions to property, plant and equipment		
Wholesale	$ 51,516	$ 64,698
Direct-to-Consumer	19,697	24,700
Total	$ 71,213	$ 89,398

Geographic Information

	Three Months Ended March 31,	
(in thousands)	2023	2022
Geographic sales		
Domestic Wholesale	$ 441,903	$ 538,569
Domestic Direct-to-Consumer	298,963	239,448
Total domestic sales	740,866	778,017
International Wholesale	852,655	712,737
International Direct-to-Consumer	408,407	328,840
Total international sales	1,261,062	1,041,577
Total sales	$ 2,001,928	$ 1,819,594
Regional Sales		
Americas (AMER)	$ 945,931	$ 946,886
Europe, Middle East & Africa (EMEA)	534,494	441,201
Asia Pacific (APAC)	521,503	431,507
Total sales	$ 2,001,928	$ 1,819,594
China sales	$ 281,953	$ 273,031

(in thousands)	As of March 31, 2023	As of December 31, 2022
Property, plant and equipment, net		
Domestic	$ 882,901	$ 870,924
International	494,687	474,446
Total	$ 1,377,588	$ 1,345,370
China property plant and equipment, net	$ 274,149	$ 264,422

The Company’s sales to its five largest customers accounted for approximately 8.0% and 10.0% of total sales for the three months ended March 31, 2023 and 2022.

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 U.S. were $4.6 billion and $4.4 billion at March 31, 2023 and December 31, 2022. Goodwill of $93.5 million is included in the Wholesale segment.

The Company performs regular evaluations concerning the ability of customers to satisfy their obligations and provides for estimated doubtful accounts. Domestic accounts receivable generally do not require collateral. Foreign accounts receivable are generally collateralized by letters of credit. The Company’s additions to the provision for expected credit losses for the three months ended March 31, 2023 and 2022 were $0.7 million and $0.3 million.

The Company's accounts receivables, excluding allowances for bad debts and chargebacks, by geography are summarized as follows:

(in thousands)	As of March 31, 2023	As of December 31, 2022
Domestic Accounts Receivable	$ 394,760	$ 310,138
International Accounts Receivable	719,911	597,621

The Company's top five manufacturers produced the following:

	Three Months Ended March 31,	
(percentage of total production)	2023	2022
Manufacturer #1	23.2	17.8
Manufacturer #2	6.1	5.2
Manufacturer #3	5.8	5.0
Manufacturer #4	5.8	4.8
Manufacturer #5	5.3	4.4
Total	46.2	37.2

(10) Commitments and Contingencies

In accordance with GAAP, the Company records a liability in its condensed consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings are inherently difficult to predict, particularly when the matters are in the procedural stages or with unspecified or indeterminate claims for damages, potential penalties, or fines. Accordingly, the Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the condensed consolidated financial statements as of March 31, 2023, 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, 2022.

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

- our ability to manage the impact from delays and disruptions in our supply chain;
- our ability to sustain, manage and forecast our costs and proper inventory levels;
- 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, health or trade conditions, or a natural disaster in China or Vietnam;
- 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;
- the loss of any significant customers, decreased demand by industry retailers and the cancellation of order commitments;
- our ability to remain competitive among sellers of footwear for consumers, including in the highly competitive performance footwear market; and
- global economic, political and market conditions including the effects of inflation and foreign currency exchange rate fluctuations around the world, the challenging consumer retail market in the United States and the impact of Russia's war with Ukraine; and
- other factors referenced or incorporated by reference in our annual report on Form 10-K for the year ended December 31, 2022 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

Sales of $2.0 billion in the first quarter set a new quarterly record, reflecting the robust global demand for our product. Sales increased across both of our segments compared to the same period in 2022. Additionally, gross margins improved year-over-year to 48.9% and inventory was reduced by 17.4% from December 31, 2022. Our record sales, expanded gross margins and meaningfully improved inventory levels are an indication of the strength of our comfort technology products and impactful marketing worldwide.

Our core product philosophy of comfort, style, innovation, and quality at a reasonable price continues to resonate with consumers, and we remain focused on delivering our comfort technology footwear to meet consumer demand. We continue to build efficiencies and expand our distribution capabilities around the world. We remain focused on executing against our long-term growth strategies and believe we are well positioned to meet our sales goal of $10 billion by 2026.

On April 22, 2023, we released our first Impact Report. With one of America's largest LEED Gold Certified facilities and our environmentally minded European Distribution Center, we are committed to reducing our impact on the world through green building design, operational efficiencies, and waste and water use reduction.

RESULTS OF OPERATIONS – FIRST QUARTER

We have two reportable segments, Wholesale and Direct-to-Consumer. Wholesale includes sales to department stores, family shoe stores, specialty running and sporting goods retailers, and big box club stores; franchisee and licensee third-party store operators; dedicated e-commerce retailers; and international distributors. Direct-to-Consumer includes direct sales to consumers through an integrated retail format of company-owned physical stores and digital platforms and hosted digital marketplaces in select international markets.

Selected information from our results of operations follows:

	Three Months Ended March 31,		Change	
(in thousands)	2023	2022	$	%
Sales	$ 2,001,928	$ 1,819,594	182,334	10.0
Cost of sales	1,023,349	995,431	27,918	2.8
Gross profit	978,579	824,163	154,416	18.7
Gross margin	*48.9 %*	*45.3 %*		*360bps*
Operating expenses				
Selling	128,560	108,209	20,351	18.8
General and administrative	626,442	540,050	86,392	16.0
Total operating expenses	755,002	648,259	106,743	16.5
As a % of sales	*37.7 %*	*35.6 %*		*210bps*
Earnings from operations	223,577	175,904	47,673	27.1
Operating margin	*11.2 %*	*9.7 %*		*150bps*
Other income (expense)	9,923	(5,746)	15,669	n/m
Earnings before income taxes	233,500	170,158	63,342	37.2
Income tax expense	43,216	33,992	9,224	27.1
Net earnings	190,284	136,166	54,118	39.7
Net earnings attributable to noncontrolling interests	29,841	14,943	14,898	99.7
Net earnings attributable to Skechers U.S.A., Inc.	$ 160,443	$ 121,223	39,220	32.4

Sales

Sales increased $182.3 million, or 10.0%, to $2.0 billion compared to $1.8 billion as a result of a 21.1% increase internationally and a 4.8% decrease domestically. Both segments experienced growth, with Direct-to-Consumer increasing 24.5% and Wholesale increasing 3.5%. Sales increased overall due to higher sales volume in Direct-to-Consumer and higher average selling prices in Wholesale.

Gross margin

Gross margin increased 360 basis points to 48.9% compared to 45.3%, due to higher average selling prices in Wholesale and a greater mix of Direct-to-Consumer sales.

Operating expenses

Operating expenses increased $106.7 million, or 16.5%, to $755.0 million, and as a percentage of sales increased 210 basis points to 37.7% compared to 35.6% in the prior year. Selling expenses increased $20.4 million, or 18.8%, to $128.6 million, primarily due to higher brand demand creation expenditures. General and administrative expenses increased $86.4 million, or 16.0%, to $626.4 million. The increased expenses were primarily due to increases in labor costs of $29.8 million, warehouse and distribution costs of $18.1 million, and facility related costs of $15.5 million, including rent and depreciation.

Other income

Other income was $9.9 million for the three months ended March 31, 2023, as compared to an expense of $5.7 million for the three months ended March 31, 2022. The increase of $15.7 million was primarily due to favorable gains on foreign currency exchange rates.

Income taxes

Income tax expense and the effective tax rate were as follows:

	Three Months Ended March 31,	
(in thousands)	2023	2022
Income tax expense	$ 43,216	$ 33,992
Effective tax rate	18.5%	20.0%

Our income tax expense and effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings before income taxes. In the foreign jurisdictions in which we have operations, the applicable statutory rates range from 0.0% to 35%, which on average is significantly lower than the U.S. federal and state combined statutory rate of approximately 25%. For the quarter, the decrease in the effective tax rate is primarily due to the positive impact of discrete items.

Noncontrolling interests in net earnings of consolidated subsidiaries

Noncontrolling interests represents the share of net earnings that is attributable to our joint venture partners. Net earnings attributable to noncontrolling interests increased $14.9 million to $29.8 million compared to $14.9 million in the prior year, due to higher earnings by our joint ventures, predominantly in China.

RESULTS OF SEGMENT OPERATIONS – FIRST QUARTER

Wholesale

	Three Months Ended March 31,		Change	
(in thousands)	2023	2022	$	%
Sales	$ 1,294,558	$ 1,251,306	43,252	3.5
Gross profit	511,999	454,960	57,039	12.5
Gross margin	*39.6%*	*36.4%*		*320bps*

Wholesale sales increased $43.3 million, or 3.5%, to $1.3 billion, which includes increases in Europe, Middle East & Africa of 20.1% and in Asia Pacific of 24.1%, partially offset by a decrease in the Americas of 13.2%. Wholesale average selling price increased 5.3% and volume decreased 1.9%.

Wholesale gross margin increased 320 basis points to 39.6% driven by average selling price increases.

Direct-to-Consumer

	Three Months Ended March 31,		Change	
(in thousands)	2023	2022	$	%
Sales	$ 707,370	$ 568,288	139,082	24.5
Gross profit	466,580	369,203	97,377	26.4
Gross margin	*66.0%*	*65.0%*		*100bps*

Direct-to-Consumer sales increased $139.1 million, or 24.5%, to $707.4 million, which includes increases in the Americas of 28.6%, Asia Pacific of 17.9% and Europe, Middle East & Africa of 29.5%. Direct-to-Consumer volume increased 27.2% and average selling price per unit decreased 2.2%.

Direct-to-Consumer gross margin increased 100 basis points to 66.0%, primarily driven by lower costs per unit partially offset by average selling price decreases due to increased promotional activity.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity outlook

We have cash and cash equivalents of $760.0 million at March 31, 2023. Amounts held outside the U.S. were $661.0 million, or 87.0%, and approximately $285.4 million was available for repatriation to the U.S. as of March 31, 2023 without incurring additional U.S. federal income taxes and applicable non-U.S. income and withholding taxes.

As of March 31, 2023, we have unused credit capacity of $747.3 million on our revolving credit facility, with an additional $250.0 million available through an accordion feature. We believe that anticipated cash flows from operations, existing cash and investments balances, available borrowings under our revolving credit facility, 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.

Cash Flows

Our working capital at March 31, 2023 was $2.2 billion, an increase of $0.2 billion from working capital of $2.0 billion at December 31, 2022. Our cash and cash equivalents at March 31, 2023 were $760.0 million, compared to $615.7 million at December 31, 2022, primarily due to our strong operating performance. Capital expenditures were $71.2 million and we repurchased $30.0 million of common stock during the period ended March 31, 2023. Our primary sources of operating cash are collections from customers. Our primary uses of cash are working capital, selling, general and administrative expenses and capital expenditures.

Operating Activities

For the three months ended March 31, 2023, net cash provided by operating activities was $235.1 million compared to net cash used of $134.8 million for the three months ended March 31, 2022. The $369.9 million increase in operating cash flows primarily resulted from decreased inventory purchases and changes in receivables balances.

Investing Activities

Net cash used in investing activities was $68.8 million for the three months ended March 31, 2023, compared to $75.2 million for the three months ended March 31, 2022. The $6.4 million decrease was due to decreased capital expenditures of $18.2 million, offset by increased net investment activity of $11.8 million.

Our capital investments remain focused on supporting our strategic growth priorities, growing our Direct-to-Consumer business, as well as expanding the presence of our brand internationally. Capital expenditures for the three months ended March 31, 2023 were $71.2 million, which included $31.0 million related to the expansion of our global distribution infrastructure; $19.9 million related to investments in our retail stores and direct-to-consumer technologies; and $9.0 million of investments in our new corporate offices. We expect our capital expenditures for the remainder of 2023 to be approximately $300.0 million to $350.0 million, which is primarily related to the expansion of our worldwide distribution capabilities, continued investments in retail and e-commerce technologies and stores, and our corporate offices in Southern California. We expect to fund ongoing capital expenses through a combination of available cash and borrowings.

Financing Activities

Net cash used in financing activities was $13.4 million during the three months ended March 31, 2023, compared to $5.0 million during the three months ended March 31, 2022. The increase is primarily the result of net decreased proceeds from short-term and long-term borrowings of $25.5 million, partially offset by decreased repayments on long-term borrowings of $14.8 million.

Capital Resources and Prospective Capital Requirements

Financing Arrangements

As of March 31, 2023, outstanding short-term and long-term borrowings were $361.2 million, of which $268.5 million relates to loans for our domestic and China distribution centers, $53.9 million relates to our operations in China, and the remainder 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 4 – Financial Commitments of the Condensed Consolidated Financial Statements for additional information.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our Unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies and estimates did not change materially during the quarter ended March 31, 2023.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes from the information previously reported under Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Item 4. Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, we performed an evaluation under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the design and effectiveness of our disclosure controls and procedures, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective in the timely and accurate recording, processing, summarizing and reporting of material financial and non-financial information within the time periods specified within the SEC's rules and forms. Our CEO and CFO also concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting during the three months ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material developments with respect to the information previously reported under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Item 1A. Risk Factors

There have been no material developments with respect to the information previously reported under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the share repurchase activity during the quarter ended March 31, 2023.

Month Ended	Total Number of Shares Purchased	Average Price Paid Per Share	Maximum Dollar Value of Shares that May Yet Be Purchased under the Program (in thousands)
January 31, 2023	—	$ —	$ 425,755
February 28, 2023	202,051	44.50	416,765
March 31, 2023	474,139	44.34	395,742
Total	676,190	$ 44.39	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Fourth Amendment to Bylaws dated March 9, 2023 (incorporated by reference to exhibit number 3.1 of the Registrant's Registration Statement on Form 8-K filed with the Securities and Exchange Commission on March 9, 2023).
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 March 31, 2023 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: May 5, 2023

SKECHERS U.S.A., INC.

By: /s/ John Vandemore

John Vandemore
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Signatory)

Exhibit 31.1

CERTIFICATION

I, Robert Greenberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2023 of Skechers U.S.A., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2023

/s/ Robert Greenberg
Robert Greenberg
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, John Vandemore, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2023 of Skechers U.S.A., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2023

/s/ John Vandemore
John Vandemore
Chief Financial Officer

Exhibit 32.1

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

In connection with the quarterly report of Skechers U.S.A., Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned, in the capacities and on the date indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Greenberg

Robert Greenberg
Chief Executive Officer
(Principal Executive Officer)
May 5, 2023

/s/ John Vandemore

John Vandemore
Chief Financial Officer
(Principal Financial and Accounting Officer)
May 5, 2023

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.