

SKECHERS USA INC  
Form 10-K  
February 29, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2011

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-14429

**SKECHERS U.S.A., INC.**

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**

*(State or Other Jurisdiction of Incorporation or Organization)*

**95-4376145**

*(I.R.S. Employer Identification No.)*

**228 Manhattan Beach Blvd., Manhattan Beach, California**

*(Address of Principal Executive Offices)*

**90266**

*(Zip Code)*

Registrant's telephone number, including area code: **(310) 318-3100**

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

**Name of Each Exchange on**

**Title of Each Class**

**Which Registered**

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Class A Common Stock, \$0.001 par value

New York Stock Exchange

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

None

(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer      Accelerated filer      Non-accelerated filer      Smaller reporting company

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 June 30, 2011, the aggregate market value of the voting and non-voting Class A and Class B Common Stock held by non-affiliates of the Registrant was approximately \$538 million based upon the closing price of \$14.48 of the Class A Common Stock on the New York Stock Exchange on such date.

The number of shares of Class A Common Stock outstanding as of February 15, 2012: 38,721,910.

The number of shares of Class B Common Stock outstanding as of February 15, 2012: 11,274,090.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement issued in connection with the 2012 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III.

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**SPECIAL NOTE ON FORWARD LOOKING STATEMENTS**

This annual report on Form 10-K 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 2012 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 be, will continue, will result, could, may, might, or any variations of such words with similar meanings. 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 company's future performance. Factors that might cause or contribute to such differences include:

- international, national and local general economic, political and market conditions including the recent global economic recession and the uncertain pace of recovery in our markets;
- 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, which could be adversely affected by various economic, political or trade conditions, or a natural disaster in China;
- 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; and
- sales levels during the spring, back-to-school and holiday selling seasons.

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely impact our business, financial condition and results of operations. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and 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 risks and uncertainties, investors should not place undue reliance on forward-looking statements, which reflect our opinions only as of the date of this annual 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.

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**PART I**

**ITEM 1. BUSINESS**

We were incorporated in California in 1992 and reincorporated in Delaware in 1999. Throughout this annual report, we refer to Skechers U.S.A., Inc., a Delaware corporation, and its consolidated subsidiaries as we, us, our, our company and Skechers unless otherwise indicated. Our Internet address is [www.skechers.com](http://www.skechers.com). Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Form 3's, 4's and 5's filed on behalf of directors, officers and 10% stockholders, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on our corporate website, [www.skx.com](http://www.skx.com), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission (SEC). You can learn more about us by reviewing such filings at [www.skx.com](http://www.skx.com) or at the SEC's website at [www.sec.gov](http://www.sec.gov).

**GENERAL**

We design and market Skechers-branded lifestyle footwear for men, women and children, and performance footwear for men and women under several unique lines. Our footwear reflects a combination of style, quality and value that appeals to a broad range of consumers. In addition to Skechers-branded lines, we also offer uniquely branded fashion and street-focused footwear lines for men, women and children. These lines are branded and marketed separately from Skechers and appeal to specific audiences. Our brands are sold through department and specialty stores, athletic and independent retailers, and boutiques as well as catalog and internet retailers. Along with wholesale distribution, our footwear is available at our e-commerce website and our own retail stores. As of February 15, 2012, we operated 120 concept stores, 107 factory outlet stores and 54 warehouse outlet stores in the United States, and 33 concept stores and 16 factory outlets internationally. Our objective is to profitably grow our operations worldwide while leveraging our recognizable Skechers brand through our strong product lines, innovative advertising and diversified distribution channels.

We seek to offer consumers a vast array of fashionable footwear that satisfies their active, casual, dress casual and athletic footwear needs. Our core consumers are style-conscious men and women attracted to our youthful brand image and fashion-forward designs, and with our new performance footwear, athletes and fitness enthusiasts. Many of our best-selling and core styles are also developed for children with colors and materials that reflect a playful image appropriate for this demographic.

We believe that brand recognition is an important element for success in the footwear business. We have aggressively promoted our brands through comprehensive marketing campaigns for men, women and children. During 2011, our Skechers brand was supported by print, television and outdoor campaigns for men and women; animated kids television campaigns featuring our own action heroes and characters; and print, television and outdoor campaigns featuring our Skechers Fitness endorsees. These endorsees included celebrities and reality stars Kim Kardashian and Kris Jenner, television personality Brooke Burke and fitness expert Denise Austin. We also signed Olympic medalist Meb Keflezighi, Hall of Fame hockey player Wayne Gretzky, Hall of Fame basketball player Karl Malone and Hall of Fame quarterback Joe Montana as endorsees to market our fitness footwear.

Since we introduced our first line, Skechers USA Sport Utility Footwear, in December 1992, we have expanded our product offering and grown our net sales while substantially increasing the breadth and penetration of our account base. Our men's, women's and children's Skechers-branded product lines benefit from the Skechers reputation for contemporary and progressive styling, quality, comfort and affordability. Our lines that are not branded with the Skechers name benefit from our marketing support, quality management and expertise. To promote innovation and brand relevance, we manage our product lines separately by utilizing dedicated sales and design teams. Our product lines share back office services in order to limit our operating expenses and fully utilize our management's vast experience in the footwear industry.

**SKECHERS LINES**

Skechers offers multiple branded product lines for men, women and children as well as other products sold under established names not associated with Skechers. Within these various product lines, we also have numerous categories, some of which have developed into well-known names. Most of these categories are marketed and packaged with unique shoe boxes, hangtags and in-store support. Management evaluates segment performance based primarily on net sales and gross margins; however, sales and costs are not allocated to specific product lines.

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### ***Lifestyle Brands***

***Skechers USA.*** Our Skechers USA category for men and women includes: (i) Casuals, (ii) Dress Casuals, (iii) Relaxed Fit (for men only), (iv) seasonal sandals and boots and (v) Casual Fusion. This category is generally sold through mid-tier retailers, department stores and some footwear specialty shops.

The Casuals line for men and women is defined by lugged outsoles and utilizes value-oriented and leather materials in the uppers. For men, the Casuals category includes black and brown boots, shoes and sandals that generally have a rugged urban design some with industrial-inspired fashion features. For women, the Casuals category includes basic black and brown oxfords and slip-ons, lug outsole and fashion boots, and casual sandals. We design and price both the men's and women's categories to appeal primarily to younger consumers with broad acceptance across age groups.

The Dress Casuals category for men is comprised of basic black and brown men's shoes that feature shiny leathers and dress details, but may utilize traditional or lugged outsoles as well as value-oriented materials. The Dress Casual line for women is comprised of trend-influenced stylized boots and shoes, which may include leather uppers, shearling or faux fur lining or trim, and water-resistant materials.

Skechers Relaxed Fit is a line of trend-right casuals for men who want all-day comfort without compromising style. Characteristics of the line include comfortable outsoles, memory foam insoles and quality leather uppers. A category with unique features, we market and package Skechers Relaxed Fit styles in a shoe box that is distinct from that of other categories in the Skechers USA line of footwear.

Our seasonal sandals and boots collection for men and women is designed with many of our existing and proven outsoles for our Casuals, Dress Casuals and Casual Fusion lines, stylized with basic or core uppers as well as fresh looks. These styles are generally made with quality leather uppers, but may also be in canvas or fabric for sandals, and water-resistant materials and fur and faux fur linings for boots.

Our Casual Fusion line is comprised of low-profile, sport-influenced Euro casuals targeted to trend-conscious young men and women. The outsoles are primarily rubber and adopted from our men's Sport and women's Active lines. This collection features leather or nubuck uppers, but may also include mesh.

***Skechers Sport.*** Our Skechers Sport footwear for men and women includes: (i) Lightweight Joggers, (ii) Trail-inspired, (iii) Athletic-inspired, (iv) Performance-inspired athletics and (v) Sport sandals and boots. Our Skechers Sport category is distinguished by its technical performance-inspired looks; however, we generally do not promote the technical performance features of these shoes. Skechers Sport is typically sold through specialty shoe stores, department stores and athletic footwear retailers.

Our Lightweight Joggers are designed with comfort and flexibility in mind. Careful attention is devoted to the cushioning, weight, materials, design and construction of the outsoles, which vary greatly depending on the intended use. This category features bright colors, earth tones and traditional athletic white.

Trail-inspired athletics are designed for city and off-road wear, some with aggressive all terrain traction lugs, external torsion stabilizer, abrasion-resistant toe and tuned dual-density molded EVA midsole with pronation control. Many of the uppers are in breathable materials, mesh, leather and nubuck.

Athletic inspired casuals are designed with the comfort of sneakers and the styling of casuals. With all-day comfort and durable rubber treads, the shoes are intended to go from weekend to work. Many of the designs are in natural shades with athletic accents. The uppers

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are designed in leather, suede, nubuck and canvas.

Performance-inspired athletics take their styling and design cues from our performance footwear in the Skechers Fitness division, allowing consumers to wear similar looks without the technology and associated costs. The styles are primarily lightweight and flexible, and feature cushioned outsoles and ventilated uppers. Designed as a versatile, trend-right athletic shoe suitable for all-day wear, the line features leather and nubuck uppers in both bright and classic athletic colors.

Our Sport sandals and boots are primarily designed from existing Skechers Sport outsoles and may include many of the same sport features as our sneakers with the addition of new technologies geared toward making a comfortable sport sandal. Sport sandals and boots are designed as seasonal footwear for the consumer who already wears our Skechers Sport sneakers.



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***Skechers Active.*** A natural companion to Skechers Sport, Skechers Active has grown from a casual everyday line into a complete line of sneakers for active females of all ages. The Active line now includes low-profile, lightweight, flexible and sporty styles. The line, with lace-up, Mary Janes, sandals and open back styles, is available in a multitude of colors as well as solid white or black, in fabrics, leathers and meshes, and with various closures – traditional laces, zig-zag and cross straps, among others. Active sneakers are typically retailed through specialty casual shoe stores and department stores.

***BOBS from Skechers.*** Our BOBS from Skechers footwear for men, women and kids is an alpargata-inspired footwear line created to help millions of children worldwide. For every pair of BOBS shoes sold, Skechers will donate a pair of new shoes to a child in need around the world through reputable charity organizations. Primarily designed with canvas and linen uppers, BOBS are also made with corduroy, boiled wool and Tyvek (a paper fabric) uppers. BOBS – versatile, classic designs are available at department, specialty shoe stores and online retailers.

***Skechers Kids.*** The Skechers Kids line includes: (i) Skechers Kids, which is a range of infants, toddlers, boys and girls boots, shoes and sneakers, (ii) S-Lights, Hot Lights by Skechers and Luminators by Skechers, (iii) Skechers Cali for Girls, (iv) Airators by Skechers, (v) Skechers Super Z-Strap, (vi) Elastika by Skechers, (vii) Bella Ballerina by Skechers, (viii) Twinkle Toes by Skechers, and (ix) Sporty Shorty by Skechers.

The Skechers Kids line includes embellishments or adornments such as fresh colors and fabrics from our Skechers adult shoes. Some of these styles are also adapted for toddlers with softer, more pliable outsoles and for infants with soft, leather-sole crib shoes.

S-Lights, Hot Lights and Luminators by Skechers are lighted sneakers and sandals for boys and girls. The S-Lights combine patterns of lights on the outsoles and sides of the shoes while Hot Lights feature lights on the front of the toe to simulate headlights as well as on other areas of the shoes. Luminators by Skechers feature glowing green lights and a marketing campaign with the Luminator character.

Skechers Cali for Girls is a line of sneakers, skimmers and sandals for young girls designed to typify the California lifestyle. The sneakers are designed primarily with canvas uppers in unique prints, some with patch details, on vulcanized outsoles. The skimmers and flats are designed with many of the same upper materials and outsoles as the sneakers.

Airators by Skechers is a line of boys sneakers with a foot-cooling system designed to pump air from the heel through to the toes. The line is marketed with the character Kewl Breeze.

Skechers Super Z-Strap is a line of athletic styled sneakers with a unique z shaped closure system for easy closure. The line is marketed with the character Z-Strap.

Elastika by Skechers is a line of girls sneakers with bungee closures. The line is marketed with the character Elastika.

Bella Ballerina by Skechers is a new line of shoes with a disc that spins on the outsole, allowing girls to twirl like a ballerina.

Twinkle Toes by Skechers is a new line of girls sneakers and boots that feature bejeweled toe caps and brightly designed uppers. Some also include lights. The line is marketed with the character Twinkle Toes.

Sporty Shorty by Skechers is a new line of athletic-inspired sneakers for girls who like to wear sport-style footwear off the field. Many of the styles are lightweight and come in bright colors. Some also include lights. The line is marketed with the character Sporty Shorty. Skechers Kids and Skechers Cali for Girls are comprised primarily of shoes that are designed as takedowns of their adult counterparts, allowing the younger set the opportunity to wear the same popular styles as their older siblings and schoolmates. This takedown strategy maintains the product's integrity by offering premium leathers, hardware and outsoles without the attendant costs involved in designing and developing new

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products. In addition, we adapt current fashions from our men's and women's lines by modifying designs and choosing colors and materials that are more suitable for the playful image that we have established in the children's footwear market. Each Skechers Kids line is marketed and packaged separately with a distinct shoe box. Skechers Kids shoes are available at department stores and specialty and athletic retailers.

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***Skechers Work.*** Expanding on our heritage of cutting-edge utility footwear, Skechers Work offers a complete line of men's and women's casuals, field boots, hikers and athletic shoes. The Skechers Work line includes athletic-inspired, casual safety toe and non-slip safety toe categories that may feature lightweight aluminum safety toe, electrical hazard and slip-resistant technologies, as well as breathable, seam-sealed waterproof membranes. Designed for men and women with jobs that require certain safety requirements, these durable styles are constructed on high-abrasion, long wearing soles, and feature breathable lining, oil and abrasion resistant outsoles offering all-day comfort and prolonged durability. The Skechers Work line incorporates design elements from the other Skechers men's and women's line. The uppers are comprised of high-quality leather, nubuck, trubuck and durabuck. Our safety toe athletic sneakers, boots, hikers and casuals are ideal for environments requiring safety footwear and offer comfort and safety in dry or wet conditions. Our slip-resistant boots, hikers, athletics, casuals and clogs are ideal for the service industry. Our safety toe products have been independently tested and certified to meet ASTM standards, and our slip-resistant soles have been tested pursuant to the Mark II testing method for slip resistance. Skechers Work is typically sold through department stores, athletic footwear retailers and specialty shoe stores, as well as marketed directly to consumers through business-to-business channels.

### ***Fitness Brands***

***Shape-ups by Skechers.*** is a comfortable line of footwear that features a patented Resamax kinetic wedge designed to give the sensation of walking on sand. Primarily sneakers for men and women, the shoes are also available in slip-resistant styles for service professionals.

***Shape-ups Liv by Skechers.*** is an ultra-lightweight sneaker collection for men and women with Natural Stride technology. The curved bottom is designed to guide you back to the body's natural stride, the Resalyte® cushioning gives you a cushioned base, and the flex groove bottom offers more flexibility. Uppers are in leather, breathable mesh and lightweight fabrics in classic athletic colors, whites and brights. Shape-ups Liv by Skechers are marketed in their own box as a stylish walking and light running shoe for men and women. The line is available at athletic footwear retailers, department stores and specialty shoe stores.

***Tone-ups by Skechers and Tone-ups Fitness.*** Targeting 18 to 34 year-old fitness and trend conscious women, Tone-ups by Skechers are casual and athletic-inspired sandals that feature a gradual density midsole designed for comfort and support. Tone-ups uppers range from leather to microfiber suede, mitobuck and nylon webbing. Tone-ups Fitness is a collection of stylish sneakers primarily with a padded bottom featuring Resalyte® technology. These styles are available in department stores and at casual shoe retailers.

***Skechers GOperform.*** Skechers Performance is a collection of technical footwear designed with a focus on a specific activity to maximize performance and promote natural motion. Developed by our Advanced Concepts Team, the footwear utilizes the latest advancements in materials and design, including an ultra-lightweight Resalyte® compound for the midsole. The footwear is available at athletic footwear retailers, department stores and specialty running stores.

Skechers GORun is an extremely flexible, minimalistic line of performance running shoes that feature a mid-foot strike design for efficient running, GOimpulse sensors for responsive feedback, and a low 4mm heel drop for a natural running feel. The shoes are ultra-lightweight at only 4.9 ounces for women's size 6 and 6.9 ounces for men's size 9. This line is primarily marketed to serious runners as well as recreational runners.

Skechers GOwalk offers performance features in a comfortable casual slip-on. The line is also very lightweight and extremely flexible so your feet can move naturally when walking.

### **PRODUCT DESIGN AND DEVELOPMENT**

Our principal goal in product design is to generate new and exciting footwear in all of our product lines with contemporary and progressive styles and comfort-enhancing performance features. Targeted to the active, youthful and style-savvy, we design our lifestyle line to be fashionable and marketable to the 12 to 24 year old consumer, while substantially all of our lines appeal to the broader range of 5 to 40 year old consumers, with an exclusive selection for infants and toddlers. Designed by our Advanced Concept Team, our performance products are for professional athletes and for those who want a technical fitness shoe with revolutionary design.

We believe that our products' success is related to our ability to recognize trends in the footwear markets and to design products that anticipate and accommodate consumers' ever-evolving preferences. We are able to quickly translate the latest fashion trends into stylish, quality footwear at a reasonable price by analyzing and interpreting current and emerging lifestyle trends. Lifestyle trend



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information is compiled and analyzed by our designers from various sources, including as follows: the review and analysis of modern music, television, cinema, clothing, alternative sports and other trend-setting media; traveling to domestic and international fashion markets to identify and confirm current trends; consulting with our retail and e-commerce customers for information on current retail selling trends; participating in major footwear trade shows to stay abreast of popular brands, fashions and styles; and subscribing to various fashion and color information services. In addition, a key component of our design philosophy is to continually reinterpret and develop our successful styles in our brands image.

The footwear design process typically begins about nine months before the start of a season. Our products are designed and developed primarily by our in-house design staff. To promote innovation and brand relevance, we utilize dedicated design teams, who report to our senior design executives and focus on each of the men's, women's and children's categories. In addition, we utilize outside design firms on an item-specific basis to supplement our internal design efforts. The design process is extremely collaborative, as members of the design staff frequently meet with the heads of retail, merchandising, sales, production and sourcing to further refine our products to meet the particular needs of the target market.

After a design team arrives at a consensus regarding the fashion themes for the coming season, the designers then translate these themes into our products. These interpretations include variations in product color, material structure and embellishments, which are arrived at after close consultation with our production department. Prototype blueprints and specifications are created and forwarded to our manufacturers for a design prototype. The design prototypes are then sent back to our design teams. Our major retail customers may also review these new design concepts. Customer input not only allows us to measure consumer reaction to the latest designs, but also affords us an opportunity to foster deeper and more collaborative relationships with our customers. We also occasionally order limited production runs that may initially be tested in our concept stores. By working closely with store personnel, we obtain customer feedback that often influences product design and development. Our design teams can easily and quickly modify and refine a design based on customer input. Generally, the production process can take six months to nine months from design concept to commercialization.

## SOURCING

**Factories.** Our products are produced by independent contract manufacturers located primarily in China and, to a lesser extent, in Italy, Vietnam, Brazil and various other countries. We do not own or operate any manufacturing facilities. We believe that the use of independent manufacturers substantially increases our production flexibility and capacity while reducing capital expenditures and avoiding the costs of managing a large production work force.

When possible, we seek to use manufacturers that have previously produced our footwear, which we believe enhances continuity and quality while controlling production costs. We attempt to monitor our selection of independent factories to ensure that no one manufacturer is responsible for a disproportionate amount of our merchandise. We source product for styles that account for a significant percentage of our net sales from at least five different manufacturers. During 2011, five of our contract manufacturers accounted for approximately 62.5% of total purchases. One manufacturer accounted for 30.8%, and another accounted for 11.5% of our total purchases. To date, we have not experienced difficulty in obtaining manufacturing services or with the availability of raw materials.

We finance our production activities in part through the use of interest-bearing open purchase arrangements with certain of our Asian manufacturers. These facilities currently bear interest at a rate between 0% and 1.5% for 30- to 60-day financing, depending on the factory. We believe that the use of these arrangements affords us additional liquidity and flexibility. We do not have any long-term contracts with any of our manufacturers; however, we have long-standing relationships with many of our manufacturers and believe our relationships to be good.

We closely monitor sales activity after initial introduction of a product in our concept stores to determine whether there is substantial demand for a style, thereby aiding us in our sourcing decisions. Styles that have substantial consumer appeal are highlighted in upcoming collections or offered as part of our periodic style offerings, while less popular styles can be discontinued after a limited production run. We believe that sales in our concept stores can also help forecast sales in national retail stores, and we share this sales information with our wholesale customers. Sales, merchandising, production and allocations management analyze historical and current sales and market data from our wholesale account base and our own retail stores to develop an internal product quantity forecast that allows us to better manage our future production and inventory levels. For those styles with high sell-through percentages, we maintain an in-stock position to minimize the time necessary to fill customer orders by placing orders with our manufacturers prior to the time we receive customers' orders for such footwear.

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**Production Oversight.** To safeguard product quality and consistency, we oversee the key aspects of production from initial prototype manufacture through initial production runs to final manufacture. Monitoring of all production is performed in the United States by our in-house production department and in Asia through an approximately 230-person staff working from our offices in China. We believe that our Asian presence allows us to negotiate supplier and manufacturer arrangements more effectively, decrease product turnaround time and ensure timely delivery of finished footwear. In addition, we require our manufacturers to certify that neither convicted, forced nor indentured labor (as defined under U.S. law) nor child labor (as defined by law in the manufacturer's country) is used in the production process, and that compensation will be paid according to local law and that the factory is in compliance with local safety regulations.

**Quality Control.** We believe that quality control is an important and effective means of maintaining the quality and reputation of our products. Our quality control program is designed to ensure that not only finished goods meet our established design specifications, but also that all goods bearing our trademarks meet our standards for quality. Our quality control personnel located in China perform an array of inspection procedures at various stages of the production process, including examination and testing of prototypes of key raw materials prior to manufacture, samples and materials at various stages of production and final products prior to shipment. Our employees are on site at each of our major manufacturers to oversee production. For some of our lower volume manufacturers, our staff is on site during significant production runs or we will perform unannounced visits to their manufacturing sites to further monitor compliance with our manufacturing specifications.

## **ADVERTISING AND MARKETING**

With a marketing philosophy of Unseen, Untold, Unsold, we take a targeted approach to marketing to drive traffic, build brand recognition and properly position our diverse lines within the marketplace. Senior management is directly involved in shaping our image and the conception, development and implementation of our advertising and marketing activities. The focus of our marketing plan is print and television advertising, which is supported by outdoor, trend-influenced marketing, public relations, promotions, grass roots and in-store support. In addition, we utilize celebrity endorsers in our advertisements. We also believe our websites and trade shows are effective marketing tools to both consumers and wholesale accounts. We have historically budgeted advertising as a percentage of projected net sales.

The majority of our advertising is conceptualized by our in-house design team. We believe that our advertising strategies, methods and creative campaigns are directly related to our success. Through our lifestyle, performance-inspired and image-driven advertising, we generally seek to build and increase brand awareness by linking the Skechers brand to youthful attitudes for our lifestyle lines, and technology with authentic runners and athletes for our performance lines. Our ads are designed to provide merchandise flexibility and to facilitate the Skechers brand's direction.

To further build brand awareness and influence consumer spending, we have selectively signed endorsement agreements with celebrities whom we believe would reach new markets. Television host Brooke Burke appeared in print and television campaigns as did as celebrity icons and reality stars Kim Kardashian and Kris Jenner for our fitness lines in 2011. We also utilized athletes in our fitness advertisements, including Hall of Fame quarterback Joe Montana, Hall of Fame basketball player Karl Malone, and Hall of Fame hockey player Wayne Gretzky. In 2011, we also signed emerging New England Patriots running back Danny Woodhead and Olympic medalist Meb Keflezighi to help launch our performance lines. From time to time, we may sign other celebrities to endorse our brand name and image in order to strategically market our products among specific consumer groups in the future.

With a targeted approach, our print ads appear regularly in popular fashion and lifestyle consumer publications, including *Runner's World*, *Cosmopolitan*, *Shape*, *Lucky*, *In Style*, *Seventeen*, *Maxim*, *Men's Fitness*, and *Women's Health*, as well as in weekly publications such as *People*, *Us Weekly*, *OK!*, and *Sports Illustrated*, among others. Our advertisements also appear in international magazines around the world.

Our television commercials are produced both in-house and through producers that we have utilized in the past who are familiar with our brands. In 2011, we developed commercials for men, women and children for our Skechers brands, including our animated spots for kids featuring our own action heroes and our fitness and performance collections. We have found these to be a cost-effective way to advertise on key national and cable programming during high selling seasons. In 2011, many of our television commercials were translated into multiple languages and aired in Brazil, Canada, the United Kingdom, France, the Benelux Region, Germany, Spain, Italy, Chile, Austria and Switzerland.

**Outdoor.** In an effort to reach consumers where they shop and in high-traffic areas as they travel to and from work, we continued our multi-level outdoor campaign that included kiosks in key malls across the United States and billboards, transportation systems and

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telephone kiosks in North America, Brazil, Chile, Asia and Europe. In addition, we advertised on football perimeter boards in the United Kingdom, Spain and Germany. We believe these are effective and efficient ways to reach a broad range of consumers and leave a lasting impression for our brands.

***Trend-Influenced Marketing/Public Relations.*** Our public relations objectives are to secure product placement in key fashion magazines, place our footwear on the feet of trend-setting celebrities and their children, and gain positive and accurate press about us and our products. Through our commitment to aggressively promote our upcoming styles, our products are often featured in leading fashion and pop culture magazines, as well as in select films and popular television shows. Our footwear and our company have been prominently displayed and referenced on news and magazine shows. We have also amassed an array of prominent product placements in magazines including *Seventeen*, *OK!*, *US Weekly*, *Health* and *Competitor*. In addition, our brands have been associated with cutting edge events and various celebrities.

***Promotions and Grass Roots.*** By applying creative sales techniques via a broad spectrum of media, our marketing team seeks to build brand recognition and drive traffic to Skechers retail stores, websites and our retail partners locations. Skechers promotional strategies have encompassed in-store specials, charity events, product tie-ins and giveaways, and collaborations with national retailers and radio stations. In 2011, we appeared at numerous marathons and walks with Skechers Fitness branded booths to allow runners the ability to try on and often buy our product -- including at the New York Marathon where Meb Keflezighi achieved a personal best time while running in Skechers GOrun footwear. Our products were made available to consumers directly or through key accounts at many of these events.

***Visual Merchandising.*** Our in-house visual merchandising department supports wholesale customers, distributors and our retail stores by developing displays that effectively leverage our products at the point of sale. Our point-of-purchase display items include signage, graphics, displays, counter cards, banners and other merchandising items for each of our brands. These materials mirror the look and feel of each brand and reinforce the image as well as draw consumers into stores.

Our visual merchandising coordinators ( VMC s ) work with our sales force and directly with our customers to ensure better sell-through at the retail level by generating greater consumer awareness through Skechers brand displays. Our VMC s communicate with and visit our wholesale customers on a regular basis to aid in proper display of our merchandise. They also run in-store promotions to enhance the sale of Skechers footwear and create excitement surrounding the Skechers brand. We believe that these efforts help stimulate impulse sales and repeat purchases.

***Trade Shows.*** To better showcase our diverse products to footwear buyers in the United States and Europe and to distributors around the world, we regularly exhibit at leading trade shows. Along with specialty trade shows, we exhibit at WSA s The Shoe Show, FFANY, ASR, MAGIC and Outdoor Retailer in the United States; GDS, MICAM, ISPO, Mess Around and Who s Next in Europe; and Couromoda and Francal in Brazil. Our dynamic, state-of-the-art trade show exhibits are developed by our in-house architect to showcase our latest product offerings in a lifestyle setting reflective of each of our brands. By investing in innovative displays and individual rooms showcasing each line, our sales force can present a sales plan for each line and buyers are able to truly understand the breadth and depth of our offerings, thereby optimizing commitments and sales at the retail level.

***Internet.*** We promote and sell our brands through our e-commerce website [www.skechers.com](http://www.skechers.com), which enables fans and customers to shop, browse, find store locations, socially interact, post a shoe review, photo, video, or question and immerse themselves in our brands. Our website is a venue for dialog and feedback from customers about our products which enhances the Skechers brand experience while driving sales through all our retail channels.

## **PRODUCT DISTRIBUTION CHANNELS**

We have four reportable segments -- domestic wholesale sales, international wholesale sales, retail sales and e-commerce sales. In the United States, our products are available through a network of wholesale customers comprised of department, athletic and specialty stores. Internationally, our products are available through wholesale customers in more than 100 countries and territories via our global network of distributors in addition to our subsidiaries in Asia, Europe, Canada and South America. Skechers owns and operates retail stores both domestically and internationally through three integrated retail formats -- concept, factory outlet and warehouse outlet stores. Each of these channels serves an integral function in the global distribution of our products. Twenty one distributors have opened 207 distributor-owned Skechers retail stores in 34 countries as of December 31, 2011.

***Domestic Wholesale.*** We distribute our footwear through the following domestic wholesale distribution channels: department stores, specialty stores, athletic specialty shoe stores and independent retailers, as well as catalog and internet retailers. While





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department stores and specialty retailers are the largest distribution channels, we believe that we appeal to a variety of wholesale customers, many of whom may operate stores within the same retail location due to our distinct product lines, variety of styles and the price criteria of their specific customers. Management has a clearly defined growth strategy for each of our channels of distribution. An integral component of our strategy is to offer our accounts the highest level of customer service so that our products will be fully represented in existing retail locations and new locations of each customer.

In an effort to provide knowledgeable and personalized service to our wholesale customers, the sales force is segregated by product line, each of which is headed by a vice president or national sales manager. Reporting to each sales manager are knowledgeable account executives and territory managers. The vice presidents and national sales managers report to our senior vice president of sales. All of our vice presidents and national sales managers are compensated on a salary basis, while our account executives and territory managers are compensated on a commission basis. None of our domestic sales personnel sells competing products.

We believe that we have developed a loyal customer base through exceptional customer service. We believe that our close relationships with these accounts help us to maximize their retail sell-throughs. Our visual merchandise coordinators work with our wholesale customers to ensure that our merchandise and point-of-purchase marketing materials are properly presented. Sales executives and merchandise personnel work closely with accounts to ensure that appropriate styles are purchased for specific accounts and for specific stores within those accounts as well as to ensure that appropriate inventory levels are carried at each store. Such information is then utilized to help develop sales projections and determine the product needs of our wholesale customers. The value-added services we provide our wholesale customers help us maintain strong relationships with our existing wholesale customers and attract potential new wholesale customers.

***International Wholesale.*** Our products are sold in more than 100 countries and territories throughout the world. We generate revenues from outside the United States from three principal sources: (i) direct sales to department stores and specialty retail stores through our subsidiaries and joint ventures in Canada, France, Germany, Spain, Portugal, Italy, Switzerland, Austria, Malaysia, Thailand, Singapore, Hong Kong, China, Japan, the Benelux Region, the United Kingdom, Brazil and Chile; (ii) sales to foreign distributors who distribute our footwear to department stores and specialty retail stores in countries and territories across Eastern Europe, Asia, Central America, South America, Africa, the Middle East and Australia, among other regions; and (iii) to a lesser extent, royalties from licensees who manufacture and distribute our non-footwear products outside the United States.

We believe that international distribution of our products represents a significant opportunity to increase sales and profits. We intend to further increase our share of the international footwear market by heightening our marketing in those countries in which we currently have a presence through our international advertising campaigns, which are designed to establish Skechers as a global brand synonymous with trend-right casual shoes.

***International Subsidiaries***

***Europe***

We currently distribute product in most of Western Europe through the following subsidiaries: Skechers USA Ltd., with its offices and showrooms in London, England; Skechers S.a.r.l., with its offices in Lausanne, Switzerland; Skechers USA France S.A.S., with its offices and showrooms in Paris, France; Skechers USA Deutschland GmbH, with its offices and showrooms in Dietzenbach, Germany; Skechers USA Iberia, S.L., with its offices and showrooms in Madrid, Spain; Skechers USA Benelux B.V., with its offices and showrooms in Waalwijk, the Netherlands; and Skechers USA Italia S.r.l., with its offices and showroom in Verona, Italy.

Skechers-owned retail stores in Europe include eleven concept stores and thirteen factory outlet stores located in nine countries, including the key locations of Covent Garden and Oxford Street in London, Altstadt District in Düsseldorf and Kalverstraat Street in Amsterdam.

To accommodate our European subsidiaries' operations, we operate an approximately 490,000 square foot distribution center in Liege, Belgium. This distribution center is currently used to store and deliver product to our subsidiaries and retail stores throughout Europe.

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*Canada*

Merchandising and marketing of our product in Canada is managed by our wholly-owned subsidiary, Skechers USA Canada, Inc. with its offices and showrooms outside Toronto in Mississauga, Ontario. Product sold in Canada is primarily sourced from our U.S. distribution center in Rancho Belago, California. We have five concept stores; Toronto Eaton Centre, West Edmonton Mall, Chinook Centre, Richmond Centre, and Pacific Centre; and two factory outlet stores in Toronto and Alberta.

*Malaysia, Singapore and Thailand*

We have a 50% interest in a joint venture in Malaysia and Singapore, and a 51% interest in a joint venture in Thailand that generate net sales in those countries. The joint ventures operate four concept stores and seven shops-in-shop in Malaysia, twelve concept stores and two shop-in-shops in Singapore, and three concept stores in Thailand. These joint ventures are included in our consolidated financial statements.

*China and Hong Kong*

We have a 50% interest in a joint venture in China and a minority interest in a joint venture in Hong Kong that generate net sales in those countries. Under the joint venture agreements, the joint venture partners contribute capital in proportion to their respective ownership interests. The joint ventures operate 47 direct-owned stores and in excess of 140 shops-in-shop in China and 19 direct-owned stores and 11 shops-in-shop in Hong Kong. These stores are in key locations in Shanghai, Beijing, Guangzhou, Xiamen, Hong, Kong, Macau, and other cities. The joint ventures are included in our consolidated financial statements.

*Japan*

Merchandising and marketing of our product in Japan is managed by our wholly-owned subsidiary, Skechers Japan GK, with its offices located in Tokyo, Japan. Product sold in Japan is primarily shipped directly from our contract manufacturers' factories in China.

*Brazil*

Merchandising and marketing of our product in Brazil is managed by our wholly-owned subsidiary, Skechers Do Brasil Calçados LTDA., with its offices located in Sao Paulo, Brazil. Product sold in Brazil is primarily shipped directly from our contract manufacturers' factories in China and occasionally from our U.S. distribution center in Rancho Belago, California.

*Chile*

Our wholly-owned subsidiary, Comercializadora Skechers Chile Limitada, supports our 18 retail stores as well as wholesale accounts in Chile. Product sold in Chile is primarily shipped directly from our contract manufacturers' factories in China and occasionally from our U.S. distribution center in Rancho Belago, California.

**Table of Contents****Distributors**

Where we do not sell directly through our international subsidiaries and joint ventures, our footwear is distributed through an extensive network of more than 30 distributors who sell our products to department, athletic and specialty stores in more than 100 countries around the world. As of December 31, 2011, we had agreements with 21 of these distributors regarding 207 distributor-owned Skechers retail stores that are open in 34 countries, including 71 stores that were opened in 2011, while seven distributor-owned stores were closed during the year. Our distributors own and operate the following retail stores:

| <b>REGION</b>      | <b>STORE FORMAT</b> | <b>NUMBER OF STORES</b> | <b>LOCATION <sup>(1)</sup></b>   |
|--------------------|---------------------|-------------------------|--|
| <i>Americas</i>    | Concept             | 51                      | Aruba, Colombia (6), Costa Rica (2), Ecuador (2), Guatemala (2), Honduras, Mexico (13), Panama (3), Peru (4), Venezuela (17) |
|                    | Warehouse           | 5                       | Colombia, Mexico (4)   |
| <i>Asia</i>        | Concept             | 79                      | India, Indonesia (9), Japan (4), Korea (48), Mongolia, Philippines (10), Taiwan (6)  |
|                    | Warehouse           | 8                       | Japan (4), Korea (2), Taiwan (2)   |
| <i>Australia</i>   | Concept             | 5                       | Castle Hill, Chadstone, Maribyrnong, Sydney (2)  |
|                    | Warehouse           | 10                      | Brisbane, Bundoora, Cairns, Canberra, Jindalee, Melbourne (4), Sydney  |
| <i>Europe</i>      | Concept             | 23                      | Croatia (3), Estonia (2), Israel, Lithuania, Malta (3), Russia (10), Ukraine (3)   |
|                    | Warehouse           | 1                       | Greece   |
| <i>Middle East</i> | Concept             | 13                      | Bahrain, Kuwait, Qatar, Saudi Arabia (5), UAE (5)  |
|                    | Warehouse           | 1                       | UAE  |
| <i>Africa</i>      | Concept             | 11                      | Egypt (2), Morocco (2), South Africa (7)   |

(1) One store per location except as otherwise noted.

The distributors are responsible for their respective stores' operations, have ownership of their respective stores' assets, and select the broad collection of our products to sell to consumers in their regions. In order to maintain a globally consistent image, we provide architectural, graphic and visual guidance and materials for the design of the stores, and we train the local staff on our products and corporate culture. We intend to expand our international presence and global recognition of the Skechers brand name by continuing to sell our footwear to foreign distributors and by opening flagship retail stores with distributors that have local market expertise.

**Retail Stores.** We pursue our retail store strategy through our three integrated retail formats: the concept store, the factory outlet store and the warehouse outlet store. Our three store formats enable us to promote the full Skechers product offering in an attractive environment that appeals to a broad group of consumers. In addition, most of our retail stores are profitable and have a positive effect on our operating results. We periodically review all of our stores for impairment. We prepare a summary of cash flows for each of our retail stores to assess potential impairment of the fixed assets and leasehold improvements. If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. In addition, we base the useful lives and related amortization or depreciation expense on our estimate of the period that the assets will generate revenues or otherwise be used by us. As of February 15, 2012, we owned and operated 120 concept stores, 107 factory outlet stores and 54 warehouse outlet stores in the United States, and 33 concept stores and 16 factory outlet stores internationally. During 2011, we opened 40 domestic stores and six international stores, and closed three domestic stores and one international store. During 2012, we plan to open 18 to 20 new stores.

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**Table of Contents*****Concept Stores.***

Our concept stores are located at marquee street locations, major tourist areas or in key shopping malls in metropolitan cities. Our concept stores have a threefold purpose in our operating strategy. First, concept stores serve as a showcase for a wide range of our product offering for the current season, as we estimate that our average wholesale customer carries no more than 5% of the complete Skechers line in any one location. Our concept stores showcase our products in an attractive, easy-to-shop open-floor setting, providing the customer with the complete Skechers story. Second, retail locations are generally chosen to generate maximum marketing value for the Skechers brand name through signage, store front presentation and interior design. Domestic locations include concept stores at Times Square, Union Square and 34th Street in New York, Powell Street in San Francisco, Hollywood and Highland in Hollywood, Santa Monica's Third Street Promenade, and Santa Monica Place Mall and Las Vegas Fashion Show Mall. International locations include Covent Garden and Oxford Street in London, Alstadt District in Dusseldorf, Toronto's Eaton Centre, Vancouver's Pacific Centre, and Kalverstraat Street in Amsterdam. The stores are typically designed to create a distinctive Skechers look and feel, and enhance customer association of the Skechers brand name with current youthful lifestyle trends and styles. Third, the concept stores serve as marketing and product testing venues. We believe that product sell-through information and rapid customer feedback derived from our concept stores enables our design, sales, merchandising and production staff to respond to market changes and new product introductions. Such responses serve to augment sales and limit our inventory markdowns and customer returns and allowances. In 2011, we opened 17 domestic concept stores and six international concept stores.

The typical Skechers concept store is approximately 2,500 square feet, although in certain markets we have opened concept stores as large as 7,800 square feet or as small as 1,100 square feet. When deciding where to open concept stores, we identify top geographic markets in the larger metropolitan cities in the United States, Canada, Europe, South America and Asia. When selecting a specific site, we evaluate the proposed sites traffic pattern, co-tenancies, sales volume of neighboring concept stores, lease economics and other factors considered important within the specific location. If we are considering opening a concept store in a shopping mall, our strategy is to obtain space as centrally located as possible in the mall where we expect foot traffic to be most concentrated. We believe that the strength of the Skechers brand name has enabled us to negotiate more favorable terms with shopping malls that want us to open up concept stores to attract customer traffic to their venues.

***Factory Outlet Stores.***

Our factory outlet stores are generally located in manufacturers' direct outlet centers throughout the United States. In addition, we have 16 international outlet stores—five in England, two each in Canada, Germany and Italy, and one each in Austria, Chile, the Netherlands, Portugal and Scotland. Our factory outlet stores provide opportunities for us to sell discontinued and excess merchandise, thereby reducing the need to sell such merchandise to discounters at excessively low prices and potentially compromise the Skechers brand image. Skechers' factory outlet stores range in size from approximately 1,900 to 9,000 square feet. Unlike our warehouse outlet stores, inventory in these stores is supplemented by certain first-line styles sold at full retail price points. We opened nine domestic factory outlet stores in 2011.

***Warehouse Outlet Stores.***

Our free-standing warehouse outlet stores, which are primarily located throughout the United States, enable us to liquidate excess merchandise, discontinued lines and odd-size inventory in a cost-efficient manner. Skechers' warehouse outlet stores are typically larger than our factory outlet stores and typically range in size from approximately 5,200 to 15,000 square feet. Our warehouse outlet stores enable us to sell discontinued and excess merchandise that would otherwise typically be sold to discounters at excessively low prices, which could otherwise compromise the Skechers brand image. We seek to open our warehouse outlet stores in areas that are in close proximity to our concept stores to facilitate the timely transfer of inventory that we want to liquidate as soon as practicable. We opened 14 domestic warehouse outlet stores in 2011.

***Electronic Commerce.*** Our website, [www.skechers.com](http://www.skechers.com) is a virtual storefront that promotes the Skechers brands. Our website is designed to provide a positive shopping and brand experience, showcasing our products in an easy-to-navigate format, allowing consumers to browse our selections and purchase our footwear. This virtual store has provided a convenient alternative-shopping environment and brand experience. The website is an efficient and effective additional retail distribution channel, and it has improved our customer service.

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For disclosure of segment information for our four reportable segments – domestic wholesale sales, international wholesale sales, retail sales and e-commerce sales – see note 12 to the financial statements on page 63 of this annual report.

### **LICENSING**

We believe that selective licensing of the Skechers brand name and our product line names to manufacturers may broaden and enhance the individual brands without requiring significant capital investments or additional incremental operating expenses. Our multiple product lines plus additional subcategories present many potential licensing opportunities on terms with licensees that we believe will provide more effective manufacturing, distribution or marketing of non-footwear products. We also believe that the reputation of Skechers and its history in launching brands has also enabled us to partner with reputable non-footwear brands to design and market their footwear.

As of January 31, 2012, we had 34 active domestic and international licensing agreements in which we are the licensor. These include Skechers branded leather goods and backpacks, Skechers Kids apparel, Skechers Scrubs for health care professionals and Skechers Eyewear. We have international licensing agreements for the design and distribution of men's and women's apparel in India, Israel, Mexico, South Africa, and Korea; bags in Panama; and watches in the Philippines.

### **DISTRIBUTION FACILITIES AND OPERATIONS**

We believe that strong distribution support is a critical factor in our operations. Once manufactured, our products are packaged in shoe boxes bearing bar codes that are shipped either: (i) to our approximate 1.8 million square-foot distribution center located in Rancho Belago, California. This facility was completed in 2011 and has replaced six facilities located in Ontario, California, (ii) to our approximately 490,000 square-foot distribution center located in Liege, Belgium or (iii) directly from third-party manufacturers to our other international customers and other international third-party distribution centers. Upon receipt at either of the distribution centers, merchandise is inspected and recorded in our management information system and packaged according to customers' orders for delivery. Merchandise is shipped to customers by whatever means each customer requests, which is usually by common carrier. The distribution centers have multi-access docks, enabling us to receive and ship simultaneously, and to pack separate trailers for shipments to different customers at the same time. We have an electronic data interchange system, or EDI system, to which some of our larger customers are linked. This system allows these customers to automatically place orders with us, thereby eliminating the time involved in transmitting and inputting orders, and it includes direct billing and shipping information.

### **BACKLOG**

As of December 31, 2011, our backlog was \$390.2 million, compared to \$588.9 million as of December 31, 2010. Backlog orders are subject to cancellation by customers, as evidenced by order cancellations that we have experienced over the past few years due to the weakened U.S. economy and shifting footwear trends which caused the toning market to become saturated with lower priced products. For a variety of reasons, including changes in the economy, customer demand for our products, the timing of shipments, product mix of customer orders, the amount of in-season orders and a shift towards tighter lead times within backlog levels, backlog may not be a reliable measure of future sales for any succeeding period.

### **INTELLECTUAL PROPERTY RIGHTS**

We own and utilize a variety of trademarks, including the Skechers trademark. We have a significant number of both registrations and pending applications for our trademarks in the United States. In addition, we have trademark registrations and trademark applications in approximately 105 foreign countries. We also have design patents and pending design and utility patent applications in both the United States and approximately 27 foreign countries. We continuously look to increase the number of our patents and trademarks both domestically and internationally where necessary to protect valuable intellectual property. We regard our trademarks and other intellectual property as valuable assets and believe that they have significant value in the marketing of our products. We vigorously protect our trademarks against infringement, including through the use of cease and desist letters, administrative proceedings and lawsuits.

We rely on trademark, patent, copyright and trade secret protection, non-disclosure agreements and licensing arrangements to establish, protect and enforce intellectual property rights in our logos, trade names and in the design of our products. In particular, we believe that our future success will largely depend on our ability to maintain and protect the Skechers trademark and other key trademarks. Despite our efforts to safeguard and maintain our intellectual property rights, we cannot be certain that we will be successful in this regard. Furthermore, we cannot be certain that our trademarks, products and promotional materials or other



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intellectual property rights do not or will not violate the intellectual property rights of others, that our intellectual property would be upheld if challenged, or that we would, in such an event, not be prevented from using our trademarks or other intellectual property rights. Such claims, if proven, could materially and adversely affect our business, financial condition and results of operations. In addition, although any such claims may ultimately prove to be without merit, the necessary management attention to and legal costs associated with litigation or other resolution of future claims concerning trademarks and other intellectual property rights could materially and adversely affect our business, financial condition and results of operations. We have sued and have been sued by third parties for infringement of intellectual property. It is our opinion that none of these claims has materially impaired our ability to utilize our intellectual property rights.

The laws of certain foreign countries do not protect intellectual property rights to the same extent or in the same manner as do the laws of the United States. Although we continue to implement protective measures and intend to defend our intellectual property rights vigorously, these efforts may not be successful or the costs associated with protecting our rights in certain jurisdictions may be prohibitive. From time to time we discover products in the marketplace that are counterfeit reproductions of our products or that otherwise infringe upon intellectual property rights held by us. Actions taken by us to establish and protect our trademarks and other intellectual property rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violating trademarks and intellectual property rights. If we are unsuccessful in challenging a third party's products on the basis of infringement of our intellectual property rights, continued sales of such products by that or any other third party could adversely impact the Skechers brand, result in the shift of consumer preferences away from our products and generally have a material adverse effect on our business, financial condition and results of operations.

## **COMPETITION**

Competition in the footwear industry is intense. Although we believe that we do not compete directly with any single company with respect to its entire range of products, our products compete with other branded products within their product category as well as with private label products sold by retailers, including some of our customers. Our utility footwear and casual shoes compete with footwear offered by companies such as The Timberland Company, Clarks, Kenneth Cole Productions Inc., Steven Madden, Ltd., Wolverine World Wide, Inc., K-Swiss Inc., and V.F. Corporation. Our athletic lifestyle and performance shoes compete with footwear offered by companies such as Nike, Inc., adidas AG, Puma AG, and New Balance Athletic Shoe, Inc. The intense competition among these companies and the rapid changes in technology and consumer preferences in the markets for performance footwear, including the walking fitness category, constitute significant risk factors in our operations. Our children's shoes compete with footwear offered by companies such as Collective Brands Inc. and Geox. In varying degrees, depending on the product category involved, we compete on the basis of style, price, quality, comfort and brand name prestige and recognition, among other considerations. These and other competitors pose challenges to our market share in our major domestic markets and may make it more difficult to establish our products in Europe, Asia and other international regions. We also compete with numerous manufacturers, importers and distributors of footwear for the limited shelf space available for the display of such products to the consumer. Moreover, the general availability of contract manufacturing capacity allows ease of access by new market entrants. Many of our competitors are larger, have been in existence for a longer period of time, have achieved greater recognition for their brand names, have captured greater market share and/or have substantially greater financial, distribution, marketing and other resources than we do. We cannot be certain that we will be able to compete successfully against present or future competitors, or that competitive pressures will not have a material adverse effect on our business, financial condition and results of operations.

## **EMPLOYEES**

As of January 31, 2012, we employed 5,636 persons, 2,434 of whom were employed on a full-time basis and 3,202 of whom were employed on a part-time basis, primarily in our retail stores. None of our employees is subject to a collective bargaining agreement. We believe that our relations with our employees are satisfactory.

## **ITEM 1A. RISK FACTORS**

In addition to the other information in this annual report, the following factors should be considered in evaluating us and our business.

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**The Effects Of The Ongoing Global Economic Slowdown May Continue To Have A Negative Impact On Our Business, Results Of Operations Or Financial Condition.**

The ongoing global economic slowdown has caused disruptions and extreme volatility in global financial markets, increased rates of default and bankruptcy, and declining consumer and business confidence, which has led to decreased levels of consumer spending, particularly on discretionary items such as footwear. These macroeconomic developments have and could continue to negatively impact our business, which depends on the general economic environment and levels of consumer spending in the United States and other parts of the world that affect not only the ultimate consumer, but also retailers, who are our primary direct customers. As a result, we may not be able to maintain or increase our sales to existing customers, make sales to new customers, open and operate new retail stores, maintain sales levels at our existing stores, maintain or increase our international operations on a profitable basis, or maintain or improve our earnings from operations as a percentage of net sales. If the global economic slowdown continues for a significant period or continues to worsen, our results of operations, financial condition, and cash flows could be materially adversely affected.

**We Face Many New Challenges After Entering The Highly Competitive Performance Footwear Market In 2008.**

Although the design and aesthetics of our products have traditionally been the most important factors in consumer acceptance of our footwear, we began incorporating technical innovations into certain of our product offerings in late 2008 and have continued to develop and introduce new performance footwear since then. The performance footwear market is keenly competitive in the United States and worldwide, and the newer entrants in that market including our company face many challenges. Negative consumer perceptions of our performance features due to our historical reputation as a fashion and lifestyle footwear company, product offerings and technologies from our competitors, and failure to keep up with rapid changes in footwear technology and consumer preferences may constitute significant risk factors in our strategy and may negatively impact our business.

**Our Operating Results Could Be Negatively Impacted If Our Sales Are Concentrated In Any One Style Or Group Of Styles.**

If any single style or group of similar styles of our footwear were to represent a substantial portion of our net sales, we could be exposed to risk should consumer demand for such style or group of styles decrease in subsequent periods. We attempt to mitigate this risk by offering a broad range of products, and no style comprised over 5% of our gross wholesale sales during 2011 or 2010. However, this may change in the future and fluctuations in sales of any given style that represents a significant portion of our future net sales could have a negative impact on our operating results.

**Our Business And The Success Of Our Products Could Be Harmed If We Are Unable To Maintain Our Brand Image.**

Our success to date has been due in large part to the strength of the Skechers brand. If we are unable to timely and appropriately respond to changing consumer demand, our brand name and brand image may be impaired. Even if we react appropriately to changes in consumer preferences, consumers may consider our brand image to be outdated or associate our brand with styles of footwear that are no longer popular. In the past, several footwear companies including ours have experienced periods of rapid growth in revenues and earnings followed by periods of declining sales and losses. Our business has been and may be similarly affected in the future.

**The Toning Footwear Category Has Come Under Public And Regulatory Scrutiny That May Have A Material Negative Impact On Our Business And Results Of Operations.**

The toning footwear product category, including our own Shape-ups products, has come under significant public scrutiny in the past year, including highly publicized negative professional opinions, negative publicity and media attention, personal injury lawsuits and attorneys publicly marketing their services to consumers who were allegedly aggrieved by the marketing of our toning products or injured by Shape-ups. In addition, we have been responding to inquiries by the FTC and SAG regarding our claims and advertising for our toning products and are engaged as defendants in related consumer class actions. This public and regulatory scrutiny has included the questioning of our advertising, promotional claims, and the overall safety of these products, as well as allegations of personal injury lawsuits. We believe that Shape-ups and our other toning products are safe, but the negative publicity from this public and regulatory scrutiny appears to have had a negative impact on sales of toning footwear generally and our Shape-ups products in particular. We are not able to predict whether such publicity, regulatory review and related litigation will continue or what the continued effect will be on the sales of our Shape-up products, our business, and our results of operations beyond that included in this annual report. Further details regarding these legal and regulatory matters are discussed in greater detail under *Legal Proceedings* in Part I, Item 3 of this annual report.





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**It Is Difficult To Predict The Effect Of Regulatory Inquiries About Advertising And Promotional Claims Related To Our Products In The Fitness Footwear Market.**

The toning footwear market is dominated by a handful of competitors who design, market and advertise their products to promote benefits associated with wearing the footwear. Advertising promoting benefits associated with the toning footwear market has come under review from regulators including the FTC, SAG, and government and quasi-government regulators in foreign countries. As discussed in greater detail under Legal Proceedings in Part I, Item 3 of this annual report, while we continue to defend our claims and advertising with respect to our core toning products vigorously before the FTC, SAG and other regulators, we have reserved \$45 million for costs and potential exposure and have recorded a pre-tax expense of \$5 million in additional legal and professional fees relating to these matters and related consumer class actions in the fourth quarter of 2011. Although we believe at this time that these charges appropriately reflect our estimated level of exposure with regard to these matters, it is not possible to predict their final outcome and it is possible that the final resolution of these matters could have a further material adverse impact on our advertising, promotional claims, business, results of operations and financial position.

**We Face Intense Competition, Including Competition From Companies With Significantly Greater Resources Than Ours, And If We Are Unable To Compete Effectively With These Companies, Our Market Share May Decline And Our Business Could Be Harmed.**

We face intense competition in the footwear industry from other established companies. A number of our competitors have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources than we do. Their greater capabilities in these areas may enable them to better withstand periodic downturns in the footwear industry, compete more effectively on the basis of price and production, and more quickly develop new products. In addition, new companies may enter the markets in which we compete, further increasing competition in the footwear industry.

We believe that our ability to compete successfully depends on a number of factors, including the style and quality of our products and the strength of our brand name, as well as many factors beyond our control. We may not be able to compete successfully in the future, and increased competition may result in price reductions, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand our development and marketing of new products, which would adversely impact the trading price of our Class A Common Stock.

**Our Business Could Be Harmed If We Fail To Maintain Proper Inventory Levels.**

We place orders with our manufacturers for some of our products prior to the time we receive all of our customers' orders. We do this to minimize purchasing costs, the time necessary to fill customer orders and the risk of non-delivery. We also maintain an inventory of certain products that we anticipate will be in greater demand. However, similar to the changes in the marketplace for toning footwear in 2011 that led to excess inventory, discounted pricing and inventory write-downs, continued lower levels of consumer spending due to the global economic slowdown, an unanticipated decline in the popularity of Skechers footwear or other unforeseen circumstances may make it difficult for us and our customers to accurately forecast product demand trends, and we may be unable to sell the products we have ordered in advance from manufacturers or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could significantly impair our brand image and have a material adverse effect on our operating results and financial condition. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply the quality products that we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer and distributor relationships, and diminish brand loyalty.

**Our Future Success Depends On Our Ability To Respond To Changing Consumer Demands, Identify And Interpret Fashion Trends And Successfully Market New Products.**

The footwear industry is subject to rapidly changing consumer demands and fashion trends. Accordingly, we must identify and interpret fashion trends and respond in a timely manner. Demand for and market acceptance of new products are uncertain and achieving market acceptance for new products generally requires substantial product development and marketing efforts and expenditures. If we do not continue to meet changing consumer demands and develop successful styles in the future, our growth and profitability will be negatively impacted. We frequently make decisions about product designs and marketing expenditures several months in advance of the time when consumer acceptance can be determined. If we fail to anticipate, identify or react appropriately to changes in styles and trends or are not successful in marketing new products, we could experience excess inventories, higher than normal markdowns or an inability to profitably sell our products. Because of these risks, a number of companies in the footwear



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industry specifically, and others in the fashion and apparel industry in general, have experienced periods of rapid growth in revenues and earnings and thereafter periods of declining sales and losses, which in some cases have resulted in companies in these industries ceasing to do business. Similarly, these risks could have a material adverse effect on our results of operations or financial condition.

### **Our Business Could Be Adversely Affected By Changes In The Business Or Financial Condition Of Significant Customers Due To Global Economic Conditions.**

The global financial crisis affected the banking system and financial markets and resulted in a tightening in the credit markets, more stringent lending standards and terms, and higher volatility in fixed income, credit, currency and equity markets. There could be a number of follow-on effects from the credit crisis on our business, including insolvency of certain of our key distributors, which could impair our distribution channels, or our significant customers, including our distributors, may experience diminished liquidity or an inability to obtain credit to finance purchases of our product. Our customers may also experience weak demand for our products or other difficulties in their businesses. If conditions in the global financial markets deteriorate in the future, demand may be lower than forecasted and insufficient to achieve our anticipated financial results. Any of these events would likely harm our business, results of operations and financial condition.

### **We May Have Difficulty Managing Our Costs If Global Economic Conditions Worsen.**

Our future results of operations will depend on our overall ability to manage our costs. These challenges include (i) managing our infrastructure, including the addition of our new distribution center in Rancho Belago, California, (ii) hiring and maintaining, as required, the appropriate number of qualified employees, (iii) managing inventory levels and (iv) controlling other expenses. If global economic conditions worsen and lead to an unexpected decline in our revenues without a corresponding and timely reduction in expenses or a failure to manage other aspects of our operations, that could have a material adverse effect on our business, results of operations or financial condition.

### **The Popularity Of Skechers Footwear May Not Continue To Grow As Rapidly As It Has In The Past Or May Decline, Which Would Have A Material Adverse Effect On Our Business, Results Of Operations And Financial Condition.**

Although our company has generally exhibited steady growth since we began operations through 2010, we have suffered decreases in net sales at times in the past, including in 2011, our rate of growth has declined at times as well and we may experience similar decreases in net sales or declines in rate of growth again in the future. Our ability to grow in the future depends upon, among other things, the continued popularity of our footwear, the acceptance by customers of performance footwear including the Skechers GOrun and Skechers GOwalk lines, and the development of new lines and styles of footwear with widespread appeal to a broad demographic of customers. If the popularity of our footwear declines or does not increase in the future, we may experience, among other things, a decrease in our revenues and profitability, which could have a material adverse effect on our business and financial condition.

### **Our Children's Shoe Business May Be Negatively Impacted By The Consumer Product Safety Improvement Act Of 2008.**

The Consumer Product Safety Commission issued new standards under the Consumer Product Safety Improvement Act of 2008 ( CPSIA ) regarding lead content in consumer products directed at children 12 years of age and under, including children's shoes. The lead limits on the outer or accessible part of a children's shoe was decreased to 600 parts per million beginning February 10, 2009 and was subsequently reduced on August 14, 2009 to 300 parts per million. These standards apply retroactively to all products that existed on February 10, 2009 and August 14, 2009, respectively, and they are not limited to new manufacturing. Effective as of August 12, 2011, the lead limits were reduced again to 100 parts per million for all products manufactured after that date, while the 600 and 300 parts per million limits remain in effect for saleable products that had already been manufactured as of the respective prior effective dates. The effective enforcement date for third party testing and certification is January 1, 2012 and applies to products manufactured after December 31, 2011. We have been working to ensure that covered products are appropriately tested, and we are regularly monitoring the evolution and interpretation of the regulation to ensure compliance. There is still uncertainty regarding the meaning of the CPSIA, how it applies to products or product components, and the level of detail that each of our retailers will require. Consequently, we are unable to predict whether the total financial impact of these new standards will have a material adverse impact on our business, results of operation or financial condition.

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

During 2011, 2010 and 2009, our net sales to our five largest customers accounted for approximately 17.8%, 24.9% and 25.1% of total net sales, respectively. No customer accounted for more than 10.0% of our net sales during 2011, 2010 and 2009. One customer



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accounted for 12.5% and another accounted for 10.0% of net trade receivables at December 31, 2011. No customer accounted for more than 10% of net trade receivables at December 31, 2010. Although we have long-term relationships with many of our customers, our customers do not have a contractual obligation to purchase our products and we cannot be certain that we will be able to retain our existing major customers. Furthermore, the retail industry regularly experiences consolidation, contractions and closings which may result in our loss of customers or our inability to collect accounts receivable of major customers. If we lose a major customer, experience a significant decrease in sales to a major customer or are unable to collect the accounts receivable of a major customer, our business could be harmed.

### **Many Of Our Retail Stores Depend Heavily On The Customer Traffic Generated By Shopping And Factory Outlet Malls Or By Tourism.**

Many of our concept stores are located in shopping malls and some of our factory outlet stores are located in manufacturers' outlet malls where we depend on obtaining prominent locations and the overall success of the malls to generate customer traffic. We cannot control the success of individual malls, and an increase in store closures by other retailers may lead to mall vacancies and reduced foot traffic. Some of our concept stores occupy street locations that are heavily dependent on customer traffic generated by tourism. Any substantial decrease in tourism resulting from the global economic slowdown, political, social or military events or otherwise, is likely to adversely affect sales in our existing stores, particularly those with street locations. The effects of these factors could reduce sales of particular existing stores or hinder our ability to open retail stores in new markets, which could negatively affect our operating results.

### **Our International Sales And Manufacturing Operations Are Subject To The Risks Of Doing Business Abroad, Particularly In China, Which Could Affect Our Ability To Sell Or Manufacture Our Products In International Markets, Obtain Products From Foreign Suppliers Or Control The Costs Of Our Products.**

Substantially all of our net sales during the year ended December 31, 2011 were derived from sales of footwear manufactured in foreign countries, with most manufactured in China and, to a lesser extent, in Italy, Brazil and Vietnam. We also sell our footwear in several foreign countries and plan to increase our international sales efforts as part of our growth strategy. Foreign manufacturing and sales are subject to a number of risks, including the following: political and social unrest, including the military presence in Iraq and terrorism; changing economic conditions, including higher labor costs; increased costs of raw materials; currency exchange rate fluctuations; labor shortages and work stoppages; electrical shortages; transportation delays; loss or damage to products in transit; expropriation; nationalization; the adjustment, elimination or imposition of domestic and international duties, tariffs, quotas, import and export controls and other non-tariff barriers; exposure to different legal standards (particularly with respect to intellectual property); compliance with foreign laws; and changes in domestic and foreign governmental policies. We have not, to date, been materially affected by any such risks, but we cannot predict the likelihood of such developments occurring or the resulting long-term adverse impact on our business, results of operations or financial condition.

In particular, because most of our products are manufactured in China, the possibility of adverse changes in trade or political relations with China, political instability in China, increases in labor costs, the occurrence of prolonged adverse weather conditions or a natural disaster such as an earthquake or typhoon in China, or the outbreak of a pandemic disease in China could severely interfere with the manufacture and/or shipment of our products and would have a material adverse effect on our operations. In addition, electrical shortages, labor shortages or work stoppages may extend the production time necessary to produce our orders, and there may be circumstances in the future where we may have to incur premium freight charges to expedite the delivery of product to our customers. If we incur a significant amount of premium charges to airfreight product for our customers, our gross profit will be negatively affected if we are unable to collect those charges.

### **Currency Exchange Rate Fluctuations In China Could Result In Higher Costs And Decreased Margins.**

Our manufacturers located in China may be subject to the effects of exchange rate fluctuations should the Chinese currency not remain stable with the U.S. dollar. The value of the Chinese currency depends to a large extent on the Chinese government's policies and China's domestic and international economic and political developments. Since 1994, the official exchange rate for the conversion of the Chinese currency was pegged to the U.S. dollar at a virtually fixed rate of approximately 8.28 Yuan per U.S. dollar. However, on July 21, 2005, the Chinese government revalued the Yuan by 2.1%, setting the exchange rate at 8.11 Yuan per U.S. dollar, and adopted a more flexible system based on a trade-weighted basket of foreign currencies of China's main trading partners. Since then, the value of the Yuan has gradually appreciated against the U.S. dollar to 6.29 Yuan per U.S. dollar on December 31, 2011. The valuation of the Yuan may continue to increase incrementally over time should the China central bank allow it to do so, which could significantly increase labor and other costs incurred in the production of our footwear in China, resulting in a potentially material adverse effect on our results of operations and financial condition.

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**The Potential Imposition Of Additional Duties, Quotas, Tariffs And Other Trade Restrictions Could Have An Adverse Impact On Our Sales And Profitability.**

All of our products manufactured overseas and imported into the United States, the European Union ( EU ) and other countries are subject to customs duties collected by customs authorities. Customs information submitted by us is routinely subject to review by customs authorities. We are unable to predict whether additional customs duties, quotas, tariffs, anti-dumping duties, safeguard measures, cargo restrictions to prevent terrorism or other trade restrictions may be imposed on the importation of our products in the future. Such actions could result in increases in the cost of our products generally and might adversely affect the sales and profitability of Skechers and the imported footwear industry as a whole.

**Our Quarterly Revenues And Operating Results Fluctuate As A Result Of A Variety Of Factors, Including Seasonal Fluctuations In Demand For Footwear, Delivery Date Delays And Potential Fluctuations In Our Estimated Annualized Tax Rate, Which May Result In Volatility Of Our Stock Price.**

Our quarterly revenues and operating results have varied significantly in the past and can be expected to fluctuate in the future due to a number of factors, many of which are beyond our control. Our major customers generally have no obligation to purchase forecasted amounts, may and have canceled orders, and may change delivery schedules or change the mix of products ordered with minimal notice and without penalty. As a result, we may not be able to accurately predict our quarterly sales. In addition, sales of footwear products have historically been somewhat seasonal in nature with the strongest sales generally occurring in our second and third quarters for the back-to-school selling season. Back-to-school sales typically ship in June, July and August, and delays in the timing, cancellation, or rescheduling of these customer orders and shipments by our wholesale customers could negatively impact our net sales and results of operations for our second or third quarters. More specifically, the timing of when products are shipped is determined by the delivery schedules set by our wholesale customers, which could cause sales to shift between our second and third quarters. Because our expense levels are partially based on our expectations of future net sales, our expenses may be disproportionately large relative to our revenues, and we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shifts, which could have a material adverse effect on our operating results.

Our annualized tax rate is based on projections of our domestic and international operating results for the year, which we review and revise as necessary at the end of each quarter, and it is highly sensitive to fluctuations in projected international earnings. Any quarterly fluctuations in our annualized tax rate that may occur could have a material impact on our quarterly operating results. As a result of these specific and other general factors, our operating results will likely vary from quarter to quarter and the results for any particular quarter may not be necessarily indicative of results for the full year. Any shortfall in revenues or net earnings from levels expected by securities analysts and investors could cause a decrease in the trading price of our Class A Common Stock.

**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 2011 and 2010, the top five manufacturers of our products produced approximately 62.5% and 70.6% of our total purchases, respectively. One manufacturer accounted for 30.8% and 34.7% of total purchases during 2011 and 2010, respectively. One other manufacturer accounted for 11.5% and 13.0% of our total purchases during 2011 and 2010, respectively. We do not have long-term contracts with manufacturers and we compete with other footwear companies for production facilities. We could experience difficulties with these manufacturers, including reductions in the availability of production capacity, failure to meet our quality control standards, failure to meet production deadlines or increased manufacturing costs. This could result in our customers canceling orders, refusing to accept deliveries or demanding reductions in purchase prices, any of which could have a negative impact on our cash flow and harm our business.

If our current manufacturers cease doing business with us, we could experience an interruption in the manufacture of our products. Although we believe that we could find alternative manufacturers, we may be unable to establish relationships with alternative manufacturers that will be as favorable as the relationships we have now. For example, new manufacturers may have higher prices, less favorable payment terms, lower manufacturing capacity, lower quality standards or higher lead times for delivery. If we are unable to provide products consistent with our standards or the manufacture of our footwear is delayed or becomes more expensive, our business would be harmed.

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**Our Business Could Be Harmed If Our Contract Manufacturers, Suppliers Or Licensees Violate Labor, Trade Or Other Laws.**

We require our independent contract manufacturers, suppliers and licensees to operate in compliance with applicable laws and regulations. Manufacturers are required to certify that neither convicted, forced or indentured labor (as defined under United States law) nor child labor (as defined by law in the manufacturer's country) is used in the production process, that compensation is paid in accordance with local law and that their factories are in compliance with local safety regulations. Although we promote ethical business practices and our sourcing personnel periodically visit and monitor the operations of our independent contract manufacturers, suppliers and licensees, we do not control them or their labor practices. If one of our independent contract manufacturers, suppliers or licensees violates labor or other laws or diverges from those labor practices generally accepted as ethical in the United States, it could result in adverse publicity for us, damage our reputation in the United States or render our conduct of business in a particular foreign country undesirable or impractical, any of which could harm our business.

In addition, if we, or our foreign manufacturers, violate United States or foreign trade laws or regulations, we may be subject to extra duties, significant monetary penalties, the seizure and the forfeiture of the products we are attempting to import or the loss of our import privileges. Possible violations of United States or foreign laws or regulations could include inadequate record keeping of our imported products, misstatements or errors as to the origin, quota category, classification, marketing or valuation of our imported products, fraudulent visas or labor violations. The effects of these factors could render our conduct of business in a particular country undesirable or impractical and have a negative impact on our operating results.

**Our Strategies Involve A Number Of Risks That Could Prevent Or Delay Any Successful Opening Of New Stores As Well As Impact The Performance Of Our Existing Stores.**

Our ability to open and operate new stores successfully depends on many factors, including, among others: our ability to identify suitable store locations, the availability of which is outside of our control; negotiate acceptable lease terms, including desired tenant improvement allowances; source sufficient levels of inventory to meet the needs of new stores; hire, train and retain store personnel; successfully integrate new stores into our existing operations; and satisfy the fashion preferences in new geographic areas.

In addition, some or a substantial number of new stores could be opened in regions of the United States in which we currently have few or no stores. Any expansion into new markets may present competitive, merchandising and distribution challenges that are different from those currently encountered in our existing markets. Any of these challenges could adversely affect our business and results of operations. In addition, to the extent that any new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets.

**We Depend On Key Personnel To Manage Our Business Effectively In A Rapidly Changing Market, And If We Are Unable To Retain Existing Personnel, Our Business Could Be Harmed.**

Our future success depends upon the continued services of Robert Greenberg, Chairman of the Board and Chief Executive Officer; Michael Greenberg, President and a member of our Board of Directors; and David Weinberg, Executive Vice President, Chief Operating Officer, Chief Financial Officer and a member of our Board of Directors. The loss of the services of any of these individuals or any other key employee could harm us. Our future success also depends on our ability to identify, attract and retain additional qualified personnel. Competition for employees in our industry is intense and we may not be successful in attracting and retaining such personnel.

**The Disruption, Expense And Potential Liability Associated With Existing And Unanticipated Future Litigation Against Us Could Have A Material Adverse Effect On Our Business, Results Of Operations And Financial Condition.**

In addition to the legal 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 our company 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 us 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. Further, any unanticipated litigation in the future, regardless of its merits, could also





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significantly divert management's attention from our operations and result in substantial legal fees being incurred. Such disruptions, legal fees and any losses resulting from these unanticipated future claims could have a material adverse effect on our business, consolidated financial statements and financial condition.

For a discussion of risks related to regulatory inquiries, see the risks discussed on page 16 under "It Is Difficult To Predict The Effect Of Regulatory Inquiries About Advertising And Promotional Claims Related To Our Products In The Fitness Footwear Market."

### **Our Ability To Compete Could Be Jeopardized If We Are Unable To Protect Our Intellectual Property Rights Or If We Are Sued For Intellectual Property Infringement.**

We believe that our trademarks, design patents and other proprietary rights are important to our success and our competitive position. We use trademarks on nearly all of our products and believe that having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying us and in distinguishing our goods from the goods of others. We consider our Skechers®, S in Shield Design®, Performance-S Shifted Design®, Shape-ups®, Twinkle Toes®, Bella Ballerina®, Skechers GOrun® and Skechers GOwalk® trademarks to be among our most valuable assets, and we have registered these trademarks in many countries. In addition, we own many other trademarks that we utilize in marketing our products. We also have a number of design patents and a limited number of utility patents covering components and features used in various shoes. We believe that our patents and trademarks are generally sufficient to permit us to carry on our business as presently conducted. While we vigorously protect our trademarks against infringement, we cannot guarantee that we will be able to secure patents or trademark protection for our intellectual property in the future or that protection will be adequate for future products. Further, we have been sued for patent and trademark infringement and cannot be sure that our activities do not and will not infringe on the intellectual property rights of others. If we are compelled to prosecute infringing parties, defend our intellectual property or defend ourselves from intellectual property claims made by others, we may face significant expenses and liability as well as the diversion of management's attention from our business, each of which could negatively impact our business or financial condition.

In addition, the laws of foreign countries where we source and distribute our products may not protect intellectual property rights to the same extent as do the laws of the United States. We cannot assure you that the actions we have taken to establish and protect our trademarks and other intellectual property rights outside the United States will be adequate to prevent imitation of our products by others or, if necessary, successfully challenge another party's counterfeit products or products that otherwise infringe on our intellectual property rights on the basis of trademark or patent infringement. Continued sales of these products could adversely affect our sales and our brand and result in the shift of consumer preference away from our products. We may face significant expenses and liability in connection with the protection of our intellectual property rights outside the United States, and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition could be adversely affected.

### **Natural Disasters Or A Decline In Economic Conditions In California Could Increase Our Operating Expenses Or Adversely Affect Our Sales Revenue.**

As of December 31, 2011, a substantial portion of our operations are located in California, including 73 of our retail stores, our headquarters in Manhattan Beach, and our domestic distribution center in Rancho Belago. Because a significant portion of our net sales is derived from sales in California, a decline in the economic conditions in California, whether or not such decline spreads beyond California, could materially adversely affect our business. Furthermore, a natural disaster or other catastrophic event, such as an earthquake or wild fires affecting California, could significantly disrupt our business including the operation of our only domestic distribution center. We may be more susceptible to these issues than our competitors whose operations are not as concentrated in California.

### **Breaches Of Our Information Technology Systems And Other Disruptions Could Compromise Our Information, Expose Us To Liability And Harm Our Reputation And Business.**

We maintain information necessary to conduct our business, including confidential and proprietary information as well as personal information regarding our customers and employees, in digital form. Data maintained in digital form is subject to the risk of intrusion, tampering and theft. We develop and maintain systems to prevent this from occurring, but the development and maintenance of these systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite our efforts, the possibility of intrusion, tampering and theft cannot be eliminated.

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entirely, and risks associated with each of these remain. In addition, we provide confidential, proprietary and personal information to third parties when it is necessary to pursue business objectives. While we obtain assurances that these third parties will protect this information and, where appropriate, monitor the protections employed by these third parties, there is a risk the confidentiality of data held by third parties may be compromised. If our data systems are compromised, our ability to conduct our business may be impaired, we may lose profitable opportunities or the value of those opportunities may be diminished and we may lose revenue as a result of unlicensed use of our intellectual property. If personal information of our customers or employees is misappropriated, our reputation with our customers and employees may be injured resulting in loss of business or morale, and we may incur costs to remediate possible injury to our customers and employees or to pay fines or take other action with respect to judicial or regulatory actions arising out of the incident.

**One Principal Stockholder Is Able To Control Substantially 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 December 31, 2011, our Chairman of the Board and Chief Executive Officer, Robert Greenberg, beneficially owned 60.4% of our outstanding Class B common shares, members of Mr. Greenberg's immediate family beneficially owned an additional 15.6% 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 23.4% 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 December 31, 2011, Mr. Greenberg beneficially owned 45.0% 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 57.5% of the aggregate number of votes eligible to be cast by our stockholders, and Mr. Schwartzberg beneficially owned 17.4% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Mr. Greenberg is able to control substantially all matters requiring approval by our stockholders, and Mr. Schwartzberg is 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 significantly influence or substantially control, 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.

**Our Charter Documents And Delaware Law May Inhibit A Takeover, Which May Adversely Affect The Value Of Our Stock.**

Provisions of Delaware law, our certificate of incorporation or our bylaws could make it more difficult for a third party to acquire us, even if closing such a transaction would be beneficial to our stockholders. Mr. Greenberg's substantial beneficial ownership position, together with the authorization of Preferred Stock, the disparate voting rights between our Class A Common Stock and Class B Common Stock, the classification of our Board of Directors and the lack of cumulative voting in our certificate of incorporation and bylaws, may have the effect of delaying, deferring or preventing a change in control, may discourage bids for our Class A Common Stock at a premium over the market price of the Class A Common Stock and may adversely affect the market price of our Class A Common Stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our corporate headquarters and additional administrative offices are located at six properties in Manhattan Beach, California, which consist of an aggregate of approximately 150,000 square feet. We own and lease portions of our corporate headquarters and administrative offices.



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Our U.S. distribution center is located in Rancho Belago, California. In January 2010, we entered into an agreement with HF Logistics I, LLC ( HF ) to form a joint venture, HF Logistics-SKX (the JV ), to build a new 1.8 million square foot distribution facility on approximately 110 acres, which was completed in 2011. This single facility has replaced the previous six facilities located in or near Ontario, California. We are leasing the new distribution center for 20 years from the JV for a base rent of \$940,695 per month, or approximately \$11.3 million per year. The JV's objective is to operate the facility for the production of income and profit. The term of the JV is fifty years. The parties are equal fifty percent partners. In April 2010, Skechers, through our wholly-owned subsidiary Skechers RB, LLC, made an initial cash capital contribution of \$30 million and HF made an initial capital contribution of the land. Additional capital contributions, if necessary, would be made on an equal basis by Skechers RB, LLC and HF.

Our European distribution center consists of a 490,000 square-foot facility in Liege, Belgium under a 20-year operating lease with base rent of approximately \$3.0 million per year. The lease agreement also provides for early termination rights at five-year intervals beginning in April 2014, pending notification as prescribed in the lease, of which the first such right was not exercised.

All of our domestic retail stores and showrooms are leased with terms expiring between April 2012 and June 2023. The leases provide for rent escalations tied to either increases in the lessor's operating expenses, fluctuations in the consumer price index in the relevant geographical area or a percentage of the store's gross sales in excess of the base annual rent. Total base rent expense related to our domestic retail stores and showrooms was \$39.8 million for the year ended December 31, 2011.

We also lease all of our international administrative offices, retail stores and showrooms located in Canada, Switzerland, United Kingdom, Germany, France, Spain, Italy, Netherlands, Brazil, Malaysia, China, Hong Kong, Japan, Chile, Singapore, Thailand, and Portugal. The property leases expire at various dates between March 2012 and April 2025. Total base rent for the leased administrative properties aggregated approximately \$23.0 million for the year ended December 31, 2011.

**ITEM 3. LEGAL PROCEEDINGS**

Our claims and advertising for our toning products including for our Shape-ups are subject to the requirements of, and routinely come under review by regulators including pending inquiries from the U.S. Federal Trade Commission ( FTC ), states' Attorneys General and government and quasi-government regulators in foreign countries. We are currently responding to requests for information regarding our claims and advertising from regulatory and quasi-regulatory agencies in the United States and several other countries and are fully cooperating with those requests. While we believe that our claims and advertising with respect to our core toning products are supported by scientific tests, expert opinions and other relevant data, and while we have been successful in defending our claims and advertising in several different countries, we have discontinued using certain test results and we periodically review and update our claims and advertising. The regulatory inquiries may conclude in a variety of outcomes, including the closing of the inquiry with no further regulatory action, settlement of any issues through changes in our claims and advertising, settlement of any issues through payment to the regulatory entity, or litigation.

Based on discussions with the FTC staff, we are now aware that the FTC's pending inquiry into our toning products will not end in a closure letter assuring no further regulatory action. In the fourth quarter, the FTC's Director of the Bureau of Consumer Protection referred the matter to the FTC Commissioners for consideration of whether to bring an action against us for false and deceptive advertising in connection with our toning products, and the Company met with the individual Commissioners to present evidence and arguments against bringing such an action. Our discussions with the FTC staff are continuing.

Since June 2010, we have been a defendant in multiple consumer class actions challenging our claims and advertising for our toning products, including our Shape-ups, actions which are described below. We also received notice in the fourth quarter that a multistate group of state Attorneys General ( SAG ), comprised of 44 States and the District of Columbia, is reviewing substantially the same claims and advertising for toning products as the FTC, and discussions relating to that inquiry are likewise ongoing.

In this regard, one of our competitors, which also sells toning products, recently settled a matter with the FTC and related consumer class actions for the payment of \$25 million plus an additional \$4.6 million in attorneys' fees. While we believe that the facts relating to the FTC and SAG inquiries into our toning products and our consumer class actions are different from our competitor's, we have evaluated this evidence and other related facts and interpretations and have concluded that we could be subject to a higher exposure as a result of these proceedings. After extensive consultation with our advisors, we have recorded a charge of \$45 million to reserve for costs and potential other exposures relating to existing litigation and regulatory matters and, in addition, have recorded an expense of \$5 million for legal and professional fees related to the aforementioned matters. Due to the sensitive and



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complex nature of these proceedings and the large number of parties involved, it is currently not possible to predict the final outcomes of the FTC inquiry, the SAG inquiry, or the related consumer class actions. Although we believe our fourth quarter charges of \$50 million appropriately reflect our estimated level of exposure, it is possible that additional exposure associated with the final resolution of these proceedings could have a further material adverse impact on our results of operations or financial position.

The toning footwear category, including our Shape-ups products, has also been the subject of some media attention arising from a number of consumer complaints and allegations of injury while wearing Shape-ups. We believe our products are safe and are defending ourselves from these media stories and injury allegations. It is too early, however, to predict the outcome of the ongoing inquiries and whether such an outcome will have a material effect on our advertising, promotional claims, business, results of operations or financial position.

*Asics Corporation and Asics America Corporation v. Skechers U.S.A., Inc.* On May 11, 2010, Asics Corporation and Asics America Corporation (collectively, "Asics") filed an action against our company in the United States District Court for the Central District of California, SACV 10-00636 CJC/MLG, alleging trademark infringement, unfair competition, and trademark dilution under both federal and California law and false advertising under California law arising out of our alleged use of stripe designs similar to Asics trademarks. The complaint seeks, among other things, permanent and preliminary injunctive relief, compensatory damages, profits, treble and punitive damages, and attorneys fees. The matter is in the discovery phase. While it is too early to predict the outcome of the litigation and whether an adverse result would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and counterclaims, vehemently deny the allegations and intend to defend the case vigorously.

*Tamara Grabowski v. Skechers U.S.A., Inc.* On June 18, 2010, Tamara Grabowski filed an action against our company in the United States District Court for the Southern District of California, Case No. 10 CV 1300 JM (MDD), on her behalf and on behalf of all others similarly situated. The complaint, as subsequently amended, alleges that our advertising for Shape-ups violates California's Unfair Competition Law and the California Consumer Legal Remedies Act, and constitutes a breach of express warranty (the "Grabowski action"). The complaint seeks certification of a nationwide class, damages, restitution and disgorgement of profits, declaratory and injunctive relief, corrective advertising, and attorneys fees and costs. On March 7, 2011, the court stayed the action on the ground that the outcomes in pending appeals in two unrelated actions will significantly affect whether a class should be certified. On January 13, 2012, the plaintiff filed a motion to lift the stay, which Skechers opposed. The court has not issued a decision on plaintiff's motion, and the stay remains in place. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations, believe that class certification is not warranted and intend to defend the case vigorously.

*Sonia Stalker v. Skechers U.S.A., Inc.* On July 2, 2010, Sonia Stalker filed an action against our company in the Superior Court of the State of California for the County of Los Angeles, on her behalf and on behalf of all others similarly situated, alleging that our advertising for Shape-ups violates California's Unfair Competition Law and the California Consumer Legal Remedies Act. The complaint seeks certification of a nationwide class, actual and punitive damages, restitution, declaratory and injunctive relief, corrective advertising, and attorneys fees and costs. On July 23, 2010, we removed the case to the United States District Court for the Central District of California, and it is now pending as *Sonia Stalker v. Skechers USA, Inc.*, CV 10-5460 JAK (JEM). On August 23, 2010, we filed a motion to dismiss the action or transfer it to the United States District Court for the Southern District of California, in view of the prior pending Grabowski action. On August 27, 2010, plaintiff moved to certify the class, which motion we have opposed. On January 21, 2011, the court stayed the action for the separate reasons that the Grabowski action was filed first and takes priority under the first-to-file doctrine and that the outcomes in pending appeals in two unrelated actions will significantly affect the outcome of plaintiff's motion for class certification and the resolution of this action. The stay remains in effect. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations, believe that class certification is not warranted and intend to defend the case vigorously.

*Venus Morga v. Skechers U.S.A., Inc.* On August 25, 2010, Venus Morga filed an action against our company in the United States District Court for the Southern District of California, Case No. 10 CV 1780 JM (MDD), on her behalf and on behalf of all others similarly situated. The complaint, as subsequently amended, alleges that our advertising for Shape-ups violates California's Unfair Competition Law and the California Consumer Legal Remedies Act, and constitutes a breach of express warranty. The complaint seeks certification of a nationwide class, damages, restitution and disgorgement of profits, declaratory and injunctive relief, corrective advertising, and attorneys fees and costs. On March 7, 2011, the court stayed the action on the ground that the outcomes in pending appeals in two unrelated actions will significantly affect whether a class should be certified. On January 13, 2012, the plaintiff

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filed a motion to lift the stay, which Skechers opposed. The court has not issued a decision on plaintiff's motion, and the stay remains in place. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations, believe that class certification is not warranted and intend to defend the case vigorously.

*Tamia Richmond v. Skechers U.S.A., Inc. and HKM Productions, Inc.* On August 31, 2010, Tamia Richmond filed a lawsuit against our company and HKM Productions in California Superior Court, County of Los Angeles, Case No. BC444730. The complaint alleged, among other things, that we had used Ms. Richmond's image and likeness in certain unauthorized forms of media. We subsequently settled the matter and, on July 13, 2011, Ms. Richmond filed a dismissal with prejudice with the court. The settlement did not have a material adverse impact on our results of operations or financial position.

*Charles Davis, Angela Meng, Paisley McCollum, Daniel Liu, Chanel Celaya, Kathy Gardiner, Samantha Rex, Tracy Long Stover, Talesha Byrd, Sean Myrie, and Marielle Jaffe v. Skechers U.S.A., Inc. and Skechers U.S.A., Inc. II* On August 12, 2011, Charles Davis, Angela Meng, Paisley McCollum, Daniel Liu, Chanel Celaya, Kathy Gardiner, Samantha Rex, Tracy Long Stover, Talesha Byrd, Sean Myrie, and Marielle Jaffe (collectively, the Plaintiffs) filed a lawsuit against our company in the Superior Court of the State of California for the County of Los Angeles, Case No. SC113783. The complaint alleges, among other things, that we have intentionally and knowingly misappropriated Plaintiffs' common law and statutory law rights of publicity by using their images and likenesses in certain unauthorized forms of media. Plaintiffs are seeking compensatory, punitive and exemplary damages, injunctive relief, interest, attorneys' fees and costs. The matter is now in the discovery phase. While it is too early to predict the outcome of the litigation and whether an adverse result would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations and intend to defend the case vigorously.

*Patty Tomlinson v. Skechers U.S.A., Inc.* On January 13, 2011, Patty Tomlinson filed a lawsuit against our company in Circuit Court in Washington County, Arkansas, Case No. CV11-121-7. The complaint alleges, on her behalf and on behalf of all others similarly situated, that our advertising for Shape-ups violates Arkansas' Deceptive Trade Practices Act, constitutes a breach of certain express and implied warranties, and is resulting in unjust enrichment (the *Tomlinson* action). The complaint seeks certification of a statewide class, compensatory damages, prejudgment interest, and attorneys' fees and costs. On February 18, 2011, we removed the case to the United States District Court for the Western District of Arkansas, and it is now pending as *Patty Tomlinson v. Skechers U.S.A., Inc.*, CV 11-05042 J LH. On March 16, 2011, we filed a motion to dismiss the action or transfer it to the United States District Court for the Southern District of California, in view of the prior pending *Grabowski* action. On March 21, 2011, Ms. Tomlinson moved to remand the action back to Arkansas state court, which motion we opposed. On May 25, 2011, the court ordered the case remanded to Arkansas state court and denied our motion to dismiss or transfer as moot, but has stayed remand pending completion of appellate review. On September 2, 2011, we filed a petition in the United States Supreme Court seeking a writ of *certiorari* relating to the propriety of remand, and on November 7, 2011, the Supreme Court denied our petition. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations, believe that class certification is not warranted and intend to defend the case vigorously.

*Terena Lovston v. Skechers U.S.A., Inc.* On May 13, 2011, Terena Lovston filed a lawsuit against our company in Circuit Court in Lonoke County, Arkansas, Case No. CV-11-321. The complaint alleges, on her behalf and on behalf of all others similarly situated, that our advertising for our toning footwear products violates Arkansas' Deceptive Trade Practices Act, and is resulting in unjust enrichment. The complaint seeks certification of a statewide class and compensatory damages. On June 3, 2011, we removed the case to the United States District Court for the Eastern District of Arkansas, and it is now pending as *Terena Lovston v. Skechers U.S.A., Inc.*, 4:11-cv-00460-DPM. On June 6, 2011, we filed a motion to dismiss the action or transfer it to the United States District Court for the Southern District of California, in view of the prior pending *Grabowski* action. On July 19, 2011, the court indicated its intent to remand the case to Arkansas state court but stayed remand pending further briefing by the parties. On August 5, 2011, the court issued an order staying the case pending completion of the appellate process in the *Tomlinson* action. On November 7, 2011, the United States Supreme Court denied our petition for a writ of *certiorari* in the *Tomlinson* action. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations, believe that class certification is not warranted and intend to defend the case vigorously.

*Skechers U.S.A., Inc. and Skechers U.S.A., Inc. II v. Elon A. Pollack, Elon A. Pollack, a Professional Corporation dba Law Offices of Elon A. Pollock, and Stein, Shostak, Shostak, Pollack & O Hara, LLP* On March 3, 2011, we filed a complaint against Elon A. Pollack, Elon A. Pollack, a Professional Corporation dba Law Offices of Elon A. Pollock, and Stein, Shostak, Shostak, Pollack & O Hara, LLP (collectively, the Defendants) in Superior Court of the State of California in Los Angeles County, Case





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No. YC064333. In our current amended complaint, we allege, among other things, that the Defendants have breached their duties of care, loyalty and fidelity to us by negligently and carelessly providing legal representation, and that the Defendants have engaged in self-dealing and breaches of their fiduciary duties to us. We are seeking actual and consequential damages, declaratory relief, interest, punitive damages, and attorneys fees and costs. On August 3, 2011, the Defendants filed a first amended cross complaint against us, which alleges breach of written contract for failure to pay certain contingency fees, entitlement to contingency fees based on the principal of quantum meruit, breach of implied covenant of good faith and fair dealing, and fraud and intentional misrepresentation. The Defendants seek damages under a retainer agreement, the reasonable value of their services, as well as consequential and incidental damages, interest, punitive damages, and costs. While it is too early to predict the outcome of the litigation and whether an adverse result would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and counterclaims, vehemently deny the allegations and intend to defend the case vigorously.

*Wendie Hochberg and Brenda Baum v. Skechers U.S.A., Inc.* On November 23, 2011, Wendie Hochberg and Brenda Baum filed a lawsuit against our company in the United States District Court for the Eastern District of New York, Case No. CV11-5751. The complaint alleges, on their behalf and on behalf of all others similarly situated, that our advertising for Shape-ups violates the New York Consumer Protection Act, and is resulting in unjust enrichment. The complaint seeks certification of a statewide class, damages, restitution, disgorgement, injunctive relief, and attorneys fees and costs. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations, believe that class certification is not warranted and intend to defend the case vigorously.

*Shannon Loss, Kayla Hedges and Donald Horner v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group* On February 12, 2012, Shannon Loss, Kayla Hedges and Donald Horner filed a lawsuit against our company in the United States District Court for the Western District of Kentucky, Case No. 3:12-cv-78-H. The complaint alleges, on behalf of the named plaintiffs and all others similarly situated, that our advertising for Shape-ups is false and misleading, thereby constituting a breach of contract, breach of implied and express warranties, and resulting in unjust enrichment. The complaint seeks certification of a nationwide class, compensatory damages, and attorneys fees and costs. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations, believe that class certification is not warranted and intend to defend the case vigorously.

*Elma Boatright and Sharon White v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group* On February 15, 2012, Elma Boatright and Sharon White filed a lawsuit against our company in the United States District Court for the Western District of Kentucky, Case No. 3:12-cv-87-S. The complaint alleges, on behalf of the named plaintiffs and all others similarly situated, that our advertising for Shape-ups is false and misleading, thereby constituting a breach of contract, breach of implied and express warranties, fraud, and resulting in unjust enrichment. The complaint seeks certification of a nationwide class, compensatory damages, and attorneys fees and costs. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations, believe that class certification is not warranted and intend to defend the case vigorously.

*Personal Injury Lawsuits Involving Shape-ups.* As previously reported, on February 20, 2011, Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group were named as defendants in a lawsuit that alleged, among other things, that Shape-ups are defective and unreasonably dangerous, negligently designed and/or manufactured, and do not conform to representations made by us, and that we failed to provide adequate warnings of alleged risks associated with Shape-ups. Also, as previously reported, through August 9, 2011, four additional cases were filed in state and federal courts against these defendants, claiming a variety of alleged injuries, but asserting legal theories similar to those in the first case and adding claims for breach of express and implied warranties, loss of consortium, and fraud. Since then, our company has been named in an additional 24 currently pending cases that assert further varying injuries but employ similar legal theories and assert similar claims to the first five cases. In each of the following cases, except as noted below, the plaintiffs seek compensatory and/or economic damages, exemplary and/or punitive damages, and attorneys fees and costs.

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| <b>Case Name</b>  | <b>Original Case Number</b> | <b>Court</b>  |
|---|-----------------------------|---|
| Holly and Timothy Ward v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group<br><br>(No exemplary or punitive damages sought) | 1:11-cv-00080-MRB           | United States District Court, Southern District of Ohio                               |
| Allison Drury v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group   | 3:11-cv-00201-CRS           | United States District Court, Western District of Kentucky, Louisville Division       |
| Melissa and Richard Kearnelly v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group   | 6:11-cv-00139-GFVT          | United States District Court, Eastern District of Kentucky, London Division           |
| Lynn P. Orsine and Raymond J. Orsine v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group                                    | 1:11-cv-01654-DCN           | United States District Court, Northern District of Ohio, Eastern Division, Cleveland  |
| Theresa Croak and Neill Croak v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group   | 1:11-cv-01458-TFH           | United States District Court, District of Columbia                                    |
| Helen Simpson v. Sketchers [sic.] U.S.A., Inc.<br><br>(No exemplary or punitive damages sought.)  | 136479-C                    | 26 <sup>th</sup> Judicial District Court, Bossier Parish, Louisiana                   |
| Jessica Wilson v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group  | 5:11-cv-02008-DDD           | United States District Court, Northern District of Ohio, Akron                        |
| Susan Reno-Gilliland and Frederick Gilliland IV v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group                         | 4:11-cv-00241-HLM           | United States District Court, Northern District of Georgia, Rome Division             |
| Mai L. Moore v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group  | 2:11-cv-02849-CGC           | United States District Court, Western District of Tennessee, Western Division         |
| Linda Nell v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group  | 4:11-cv-02050-BYP           | United States District Court, Northern District of Ohio, Eastern Division, Youngstown |
| Denise Hagvall v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group  | 1:11-cv-02805-CCB           | United States District Court, District of Maryland (Baltimore)                        |
| Karen McClain v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group   | 1:11-cv-02807-CCB           | United States District Court, District of Maryland (Baltimore)                        |
| Lisa Fuller and Terry Fuller v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group  | 1:11-cv-00084-BRW           | United States District Court, Eastern District of Arkansas, Northern Division         |

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Mark Stanley and Rebecca Stanley v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group 11-CI-00494

Circuit Court in Graves County, Kentucky

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|   |                   |  |
|---|-------------------|--|
| Corin Hall and Robert Hall v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group        | 2:11-cv-00921-SA  | United States District Court, District of Utah                                       |
| Gale Leiter v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group                       | 3:11-cv-00351-TMR | United States District Court, Southern District of Ohio, Western Division, Dayton    |
| Lisa Delzoppo-Patel v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group               | 1:11-cv-02129     | United States District Court, Northern District of Ohio, Eastern Division, Cleveland |
| Karita Pierson v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group                    | 3:11-cv-00352-WHR | United States District Court, Southern District of Ohio, Western Division, Dayton    |
| Peggy Stults v. Skechers U.S.A. Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group                       | 2:11-cv-1036-BCW  | United States District Court, District of Utah, Central Division                     |
| Lisa Peniston v. Skechers U.S.A. Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group                      | 4:11-cv-889-A     | United States District Court, Northern District of Texas                             |
| Kathy Bartek, et al. v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skecher Fitness Group               | BC476903          | Los Angeles Superior Court for the State of California, Central Division             |
| Evelyn Rice v. Skechers U.S.A. Inc, Skechers U.S.A., Inc. II, and Skechers Fitness Group                        | 1:12-cv-181-PAG   | United States District Court, Northern District of Ohio, Eastern Division            |
| Jewel Trsek v. Skechers U.S.A. Inc, Skechers U.S.A., Inc. II and Skechers Fitness Group                         | 3:12-cv-183-LW    | United States District Court, Northern District of Ohio, Eastern Division            |
| Tammy Santarosa v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group                   | 3:12-cv-182-JZ    | United States District Court for the Northern District of Ohio, Northern Division    |
| Sharon Schinder v. Skechers U.S.A. Inc; Skechers U.S.A., Inc. II; and Skechers Fitness Group                    | 2:11-cv-00408-WOB | United States District Court, Eastern District of Kentucky                           |
| Virginia Phillips v. Skechers U.S.A., Inc and The Sports Authority Inc.   | 37-2012-00092016  | San Diego Superior Court for the State of California                                 |
| Richard Raskopf and Cynthia Raskopf v. Skechers U.S.A., Inc; Skechers U.S.A. Inc. II and Skechers Fitness Group | 3:12-cv-00070-JVB | United States District Court, Northern District of Indiana                           |
| Roxann Romano and Paul Romano v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group     | 2:12-cv-00370-DRH | United States District Court, Eastern District of New York                           |
| Gina Williams-Lowe v. Skechers U.S.A. Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group                 | 8:12-cv-603-DKC   | United States District Court, District of Maryland                                   |



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On December 19, 2011, the Judicial Panel on Multidistrict Litigation issued an order establishing a multidistrict litigation proceeding in the United States District Court for the Western District of Kentucky entitled *In re Skechers Toning Shoe Products Liability Litigation*, case no. 11-md-02308-TBR, that currently or will shortly encompass 27 personal injury cases that were initiated in various federal courts. In addition, the Company recently was named as a defendant in a 37-plaintiff personal injury action filed in the Los Angeles Superior Court, entitled *Bartek v. Skechers U.S.A., Inc., et al.*, case no. BC476903. While it is too early to predict the outcome of any of these cases and whether an adverse result would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses, vehemently deny the allegations and intend to defend each of these cases vigorously.

As discussed above, we have reserved \$45 million for costs and potential exposure relating to existing litigation and regulatory matters and have recorded a pre-tax expense of \$5 million in additional legal and professional fees. 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 our company 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 us 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 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our Class A Common Stock trades on the New York Stock Exchange under the symbol SKX. The following table sets forth, for the periods indicated, the high and low sales prices of our Class A Common Stock.

|                                     | HIGH     | LOW      |
|-------------------------------------|----------|----------|
| <b>YEAR ENDED DECEMBER 31, 2011</b> |          |          |
| First Quarter                       | \$ 23.66 | \$ 17.86 |
| Second Quarter                      | 21.47    | 13.29    |
| Third Quarter                       | 17.88    | 13.31    |
| Fourth Quarter                      | 15.42    | 11.75    |
| <b>YEAR ENDED DECEMBER 31, 2010</b> |          |          |
| First Quarter                       | \$ 37.74 | \$ 26.76 |
| Second Quarter                      | 44.90    | 32.61    |
| Third Quarter                       | 40.20    | 21.22    |
| Fourth Quarter                      | 26.25    | 19.00    |

**HOLDERS**

As of February 15, 2012, there were 102 holders of record of our Class A Common Stock (including holders who are nominees for an undetermined number of beneficial owners) and 28 holders of record of our Class B Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class B Common Stock is not publicly traded but each share is convertible upon request of the holder into one share of Class A Common Stock.





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## DIVIDEND POLICY

Earnings have been and will be retained for the foreseeable future in the operations of our business. We have not declared or paid any cash dividends on our Class A Common Stock and do not anticipate paying any cash dividends in the foreseeable future. Our current policy is to retain all of our earnings to finance the growth and development of our business.

## EQUITY COMPENSATION PLAN INFORMATION

Our equity compensation plan information is provided as set forth in Part III, Item 12 of this annual report.

## PERFORMANCE GRAPH

The following graph demonstrates the total return to stockholders of our company's Class A Common Stock from December 31, 2006 to December 31, 2011, relative to the performance of the Russell 2000 Index, which includes our Class A Common Stock, and our peer group index, which consists of six companies believed to be engaged in similar businesses: Nike, Inc., adidas AG, Kenneth Cole Productions, Inc., K-Swiss Inc., Steven Madden, Ltd., and Wolverine World Wide, Inc.

The graph assumes an investment of \$100 on December 31, 2006 in each of our company's Class A Common Stock and the stocks comprising each of the Russell 2000 Index and the customized peer group index. Each of the indices assumes that all dividends were reinvested. The stock performance of our company's Class A Common Stock shown on the graph is not necessarily indicative of future performance. We will not make nor endorse any predictions as to our future stock performance.

|                              | 12/31/06      | 12/31/07      | 12/31/08     | 12/31/09      | 12/31/10      | 12/31/11      |
|------------------------------|---------------|---------------|--------------|---------------|---------------|---------------|
| <b>Skechers U.S.A., Inc.</b> | <b>100.00</b> | <b>58.57</b>  | <b>38.49</b> | <b>88.29</b>  | <b>60.04</b>  | <b>36.39</b>  |
| <b>Russell 2000</b>          | <b>100.00</b> | <b>98.43</b>  | <b>65.18</b> | <b>82.89</b>  | <b>105.14</b> | <b>100.75</b> |
| <b>Peer Group</b>            | <b>100.00</b> | <b>132.40</b> | <b>93.11</b> | <b>126.91</b> | <b>162.19</b> | <b>178.67</b> |

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following tables set forth our company's selected consolidated financial data as of and for each of the years in the five-year period ended December 31, 2011 and should be read in conjunction with our audited consolidated financial statements and notes thereto included under Part II, Item 8 of this annual report.

(In thousands, except net earnings (loss) per share)

| STATEMENT OF OPERATIONS DATA:                             | YEARS ENDED DECEMBER 31, |              |              |              |              |
|---|--------------------------|--------------|--------------|--------------|--------------|
|   | 2011                     | 2010         | 2009         | 2008         | 2007         |
| Net sales   | \$ 1,606,016             | \$ 2,006,868 | \$ 1,436,440 | \$ 1,440,743 | \$ 1,394,181 |
| Gross profit  | 623,748                  | 911,906      | 621,010      | 595,922      | 599,989      |
| Earnings (loss) from operations                           | (133,793)                | 195,568      | 70,255       | 57,705       | 113,323      |
| Earnings (loss) before income taxes (benefit)             | (131,047)                | 196,603      | 71,110       | 60,743       | 118,305      |
| Net earnings (loss) attributable to Skechers U.S.A., Inc. | (67,484)                 | 136,148      | 54,699       | 55,396       | 75,686       |
| Net earnings (loss) per share:(1)                         |                          |              |              |              |              |
| Basic   | (1.39)                   | 2.87         | 1.18         | 1.20         | 1.67         |
| Diluted   | (1.39)                   | 2.78         | 1.16         | 1.19         | 1.63         |
| Weighted average shares:(1)                               |                          |              |              |              |              |
| Basic   | 48,491                   | 47,433       | 46,341       | 46,031       | 45,262       |
| Diluted   | 48,491                   | 49,050       | 47,105       | 46,708       | 46,741       |

| BALANCE SHEET DATA:                       | AS OF DECEMBER 31, |            |            |            |            |
|---|--------------------|------------|------------|------------|------------|
|   | 2011               | 2010       | 2009       | 2008       | 2007       |
| Working capital                           | \$ 578,885         | \$ 666,054 | \$ 558,468 | \$ 413,771 | \$ 523,888 |
| Total assets                              | 1,281,888          | 1,304,794  | 995,552    | 876,316    | 827,977    |
| Long-term debt, excluding current portion | 76,531             | 51,650     | 15,641     | 16,188     | 16,462     |
| Skechers U.S.A., Inc. equity              | 852,561            | 908,203    | 745,922    | 668,693    | 626,663    |

- (1) Basic earnings per share represents net earnings (loss) divided by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share, in addition to the weighted average determined for basic earnings (loss) per share, reflects the potential dilution that could occur if options to issue common stock were exercised or converted into common stock and assumes the conversion of our 4.50% convertible subordinated notes for the period outstanding since their issuance in April 2002 until their conversion in February 2007, unless their inclusion would be anti-dilutive.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**GENERAL**

We design, market and sell contemporary footwear for men, women and children under the Skechers brand. Our footwear is sold through a wide range of department stores and leading specialty retail stores, mid-tier retailers, boutiques, our own retail stores, distributor-owned international retail stores and our e-commerce website. Our objective is to continue to profitably grow our domestic operations while leveraging our brand name to expand internationally.

Our operations are organized along our distribution channels, and we have the following four reportable sales segments: domestic wholesale sales, international wholesale sales, retail sales and e-commerce sales. We evaluate segment performance based primarily on net sales and gross margins. See detailed segment information in note 12 to our consolidated financial statements included under Part II, Item 8 of this annual report.

**FINANCIAL OVERVIEW**

Our net sales for 2011 were \$1.606 billion, a decrease of \$400.9 million, or 20.0%, compared to net sales of \$2.007 billion in 2010. Net loss was \$67.5 million, a decrease of \$203.6 million or 149.6% from net earnings of \$136.1 million in 2010. Diluted loss per share was \$1.39, which reflected a 150.0% decrease from the \$2.78 diluted earnings per share reported in the prior year. Our decreased earnings were primarily the result of lower sales volumes and decreased margins primarily due to overall lower demand for toning footwear and a weak U.S. retail environment, inventory write-downs of \$10.0 million on our toning products, a reserve of \$45.0 million for costs and potential exposure relating to existing litigation and regulatory matters, foreign bad debt write-offs of \$4.6 million and \$3.1 million in asset impairments. Working capital was \$578.9 million at December 31, 2011, a decrease of \$87.2 million from working capital of \$666.1 million at December 31, 2010. Cash increased by \$117.5 million to \$351.1 million at December 31, 2011 compared to \$233.6 million at December 31, 2010. The increase in cash of \$117.5 million was the result of reduced inventory levels of \$170.2 million, lower receivables of \$86.1 million, and increased borrowings of \$69.3 million, partially offset by capital expenditures of \$122.2 million and net loss of \$67.5 million.

**2011 OVERVIEW**

In 2011, we focused on product development, domestic and international growth, and developing our infrastructure to support future growth.

**New product design and delivery.** Our success depends on our ability to design and deliver trend-right, affordable product in a diverse range. In 2011, we focused on continuously updating our core styles, adding fresh looks to our existing lines, and developing new lines including our first true performance footwear line. This approach has broadened our product offering and ensured the relevance of our brands.

**Grow our domestic business.** In 2011, our focus was on maintaining our core Skechers business in our domestic wholesale accounts, while finding new opportunities to add shelf space and expand into new locations with new Skechers categories. We also focused on expanding our domestic retail distribution channel by opening 40 additional stores while closing three underperforming locations.

**Further develop our international businesses.** In 2011, we continued to focus on improving our international operations by (i) growing our subsidiary business by increasing our customer base within our existing subsidiary business, including developing our subsidiaries in Brazil and Chile; (ii) increasing the product offering within each account; (iii) delivering the right product into the right markets; and (iv) by building the business of our joint ventures in Asia through additional retail stores and wholesale channels.

**Develop our infrastructure.** In 2011, we completed the transition to our new domestic distribution center enabling us to move out of our six existing distribution facilities and creating a more efficient distribution center.

**OUTLOOK FOR 2012**

During 2012, we will continue to develop new lifestyle and performance product at affordable prices in an effort to offset the decline in our toning products that we experienced during 2011 and expect to continue to experience throughout 2012. The global

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footwear market is competitive; however, we believe our new styles and lines that will be launching in the spring and fall seasons will enable us to broaden the targeted demographic profile of our consumer base, increase our shelf space and open new locations without detracting from existing business. As we transition into our new product offerings, we expect gross margins will return to our historical rates of 40% to 42% in the second half of 2012.

YEAR ENDED DECEMBER 31, 2011 COMPARED TO THE YEAR ENDED DECEMBER 31, 2010

***Net sales***

Net sales for 2011 were \$1.606 billion, a decrease of \$400.9 million, or 20.0%, compared to net sales of \$2.007 billion in 2010. The decrease in net sales was primarily attributable to lower sales in our domestic wholesale segment due to reduced sales of toning products and lower average selling prices for our products partially offset by higher sales in our international wholesale segment.

Our domestic wholesale net sales decreased \$443.8 million, or 39.2%, to \$688.2 million in 2011 compared to \$1.132 billion in 2010. The decrease in our domestic wholesale segment was broad-based and across key divisions primarily due to overall lower demand for toning footwear and a weak U.S. retail environment. The largest decrease in our domestic wholesale segment came in our women's and men's toning divisions. The average selling price per pair within the domestic wholesale segment decreased to \$20.46 per pair for 2011 from \$24.33 in 2010, as a result of the sell-through of our excess toning inventory. The decrease in the domestic wholesale segment's net sales also resulted from a 27.8% unit sales volume decrease to 33.6 million pairs in 2011 from 46.5 million pairs in 2010.

Our international wholesale segment net sales increased \$50.7 million, or 11.6%, to \$487.3 million in 2011 compared to sales of \$436.6 million in 2010. Our international wholesale sales consist of direct subsidiary sales—those we make to department stores and specialty retailers—and sales to our distributors who in turn sell to department stores and specialty retailers in various international regions where we do not sell direct. Direct subsidiary sales increased \$29.1 million, or 9.2%, to \$343.9 million compared to sales of \$314.8 million in 2010. The largest sales increases came from our subsidiaries in Italy and our joint ventures in Asia. Our distributor sales increased \$21.5 million, or 17.6%, to \$143.4 million in 2011, compared to sales of \$121.9 million in 2010. This was primarily attributable to increased sales to our distributors in Panama and Japan.

Our retail segment net sales decreased \$0.2 million, or 0.1% to \$410.5 million in 2011, compared to sales of \$410.7 million in 2010. The decrease in retail sales was attributable to negative comparable store sales partially offset by a net increase of 37 domestic stores. For the year ended December 31, 2011, we realized negative comparable store sales of 11.9% in our domestic retail stores and 2.1% in our international retail stores. The comparable store sales decline was principally driven by reduced demand for our toning product as well as decreased average retail pricing. During the year ended December 31, 2011, we opened 17 new domestic concept stores, nine domestic outlet stores, 14 domestic warehouse stores, and six international concept stores. Our domestic retail sales decreased 3.0% for the year ended December 31, 2011 compared to the same period in 2010 as the result of negative comparable store sales partially offset by a net increase of 37 domestic stores. Our international retail sales increased 22.2% for the year ended December 31, 2011 compared to the same period in 2010 attributable to a net increase of five international stores.

We had 281 domestic stores and 49 international retail stores as of February 15, 2012, and during 2012 we currently plan to open approximately 18 to 20 stores. We closed three domestic stores and one international concept store in 2011 and one domestic store in 2010. We periodically review all of our stores for impairment. During 2011, we recorded an impairment charge of \$1.5 million related to eleven of our underperforming domestic stores. During 2010, we did not record an impairment charge. Further, we carefully review our under-performing stores and may consider the non-renewal of leases upon completion of the current term of the applicable lease.

Our e-commerce net sales decreased \$7.5 million to \$20.1 million in 2011, a 27.2% decrease compared to sales of \$27.6 million in 2010. Our e-commerce sales made up approximately 1% of our consolidated net sales in 2011 and 2010.

***Gross profit***

Gross profit for 2011 decreased \$288.2 million to \$623.7 million from \$911.9 million in 2010. Gross profit as a percentage of net sales, or gross margin, decreased to 38.8% in 2011 from 45.4% in 2010. Our domestic wholesale segment gross profit decreased \$274.4 million, or 59.6%, to \$186.0 million in 2011 from \$460.4 million in 2010. Domestic wholesale margins decreased to 27.0% in 2011 from 40.7% for 2010. The decrease in domestic wholesale margins was primarily attributable to lower average selling prices due to the sell-through of our excess toning inventory and inventory write-downs. In the second quarter 2011, we reduced our excess



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toning inventory by selling two million pairs of our original Shape-ups at a loss of \$21.0 million and recorded an additional \$4.4 million reserve for our remaining toning product. In the fourth quarter of 2011, we recorded an additional reserve of \$5.6 million on our original Shape-ups. The reserves were taken to reflect the current wholesale selling price for our remaining toning inventory.

Gross profit for our international wholesale segment increased \$14.7 million, or 8.1%, to \$196.2 million for 2011 compared to \$181.5 million in 2010. Gross margins were 40.3% for 2011 compared to 41.6% in 2010. The decrease in gross margins for our international wholesale segment was attributable to increased distributor sales, which achieved lower gross margins than our international wholesale sales through our foreign subsidiaries. International wholesale sales through our foreign subsidiaries historically have achieved higher gross margins than our international wholesale sales through our foreign distributors. Gross margins for our direct subsidiary sales were 46.5% in 2011 as compared to 47.3% in 2010. Gross margins for our distributor sales were 25.4% in 2011 as compared to 26.8% in 2010. Our international wholesale segment was not impacted as severely by the decline in demand for our toning product that we experienced in our domestic wholesale segment.

Gross profit for our retail segment decreased \$24.1 million, or 9.4%, to \$231.8 million in 2011 as compared to \$255.9 million in 2010. Gross margins for all stores were 56.5% for 2011 compared to 62.3% in 2010. Gross margins for our domestic stores were 56.8% in 2011 as compared to 62.3% in 2010. Gross margins for our international stores were 54.7% in 2011 as compared to 62.3% in 2010. The decrease in retail margins was primarily due to lower average selling prices and negative comparable sales.

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

***Selling expenses***

Selling expenses decreased by \$34.7 million, or 18.6%, to \$152.0 million for 2011 from \$186.7 million in 2010. As a percentage of net sales, selling expenses were 9.5% and 9.3% in 2011 and 2010, respectively. The decrease in selling expenses was primarily the result of lower advertising expenses. Selling expenses consist primarily of the following: sales representative sample costs, sales commissions, trade shows, advertising and promotional costs, which may include television and ad production costs, and expenses associated with marketing materials.

***General and administrative expenses***

General and administrative expenses increased by \$78.9 million, or 14.8%, to \$613.1 million for 2011 from \$534.2 million in 2010. As a percentage of sales, general and administrative expenses were 38.2% and 26.6% in 2011 and 2010, respectively. The increase in general and administrative expenses was primarily attributable to higher legal settlement expenses of \$42.8 million which includes a \$45.0 million charge for potential exposure relating to previously disclosed litigation and regulatory matters, increased outside professional fees of \$13.6 million, \$4.6 million in foreign bad debt reserves, increased depreciation expense of \$12.0 million, and higher rent expense of \$10.4 million attributable to an additional 42 stores from the prior year. In addition, the expenses related to our distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of our products totaled \$114.2 million and \$119.1 million for 2011 and 2010, respectively.

General and administrative expenses consist primarily of the following: salaries, wages and related taxes, 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 domestic and European distribution centers, professional fees related to both legal and accounting, insurance, and depreciation and amortization, asset impairment, amongst other expenses. Our distribution network related costs are included in general and administrative expenses and are not allocated to specific segments.

We believe that we have established our presence in most major domestic retail markets. We opened 40 domestic retail stores and six international retail stores in 2011, while closing three domestic stores and one international store. During 2012, we currently plan to open between 18 and 20 stores.

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### ***Interest income***

Interest income for 2011 decreased \$0.9 million to \$1.9 million as compared to \$2.8 million for the same period in 2010. The decrease in interest income was primarily due to interest received on refunds of customs and duties payments during the year ended December 31, 2010.

### ***Interest expense***

Interest expense for 2011 increased \$4.9 million to \$7.9 million as compared to \$3.0 million for the same period in 2010. The increase was attributable to increased interest paid to our foreign manufacturers and interest paid on our equipment loans. Interest expense was incurred on amounts owed to our foreign manufacturers and loans on property, plant and equipment for our new distribution center.

### ***Gain on disposal of assets***

Gain on disposal of assets for 2011 increased \$9.6 million to \$9.6 million primarily from the gain on the sale of our Ontario, California distribution center of \$9.9 million for which we received cash proceeds of \$17.1 million.

### ***Income taxes***

The effective tax rate for 2011 was 48.4% as compared to 30.6% in 2010. Income tax benefit for 2011 was \$63.5 million compared to expense of \$60.2 million for 2010. The effective tax rate is subject to fluctuation resulting from the combination of domestic and international operating results and different tax rates on a worldwide basis. As a result of the net operating loss realized in 2011, we will carryback these losses to prior tax years and will receive a refund of approximately \$52.0 million of income taxes previously paid.

Income taxes were computed using the effective tax rates applicable to each of our domestic and international taxable jurisdictions. The rate for the year ended December 31, 2011 was higher than the expected domestic federal and state rate of approximately 40% due to a combination of the tax benefit from our U.S. net operating loss with the tax benefit from the rate differential on our non-U.S. subsidiary earnings in lower tax rate jurisdictions, and our planned permanent reinvestment of undistributed earnings from our non-U.S. subsidiaries, thereby indefinitely postponing their repatriation to the United States. As such, we did not provide for deferred income taxes on accumulated undistributed earnings of our non-U.S. subsidiaries. As of December 31, 2011, withholding and U.S. taxes have not been recorded on approximately \$158.9 million of cumulative undistributed earnings.

### ***Noncontrolling interest in net income and loss of consolidated subsidiaries***

Noncontrolling interest for 2011 decreased \$0.4 million to loss of \$0.1 million as compared to income of \$0.3 million for the same period in 2010. Noncontrolling interest represents the share of net earnings or loss that is attributable to our joint venture partners.

## **YEAR ENDED DECEMBER 31, 2010 COMPARED TO THE YEAR ENDED DECEMBER 31, 2009**

### ***Net sales***

Net sales for 2010 were \$2.007 billion, an increase of \$570.4 million, or 39.7%, compared to net sales of \$1.436 billion in 2009. The increase in net sales was broad-based across all segments.

Our domestic wholesale net sales increased \$368.4 million, or 48.3%, to \$1.132 billion in 2010 compared to \$763.5 million in 2009. The largest increases in our domestic wholesale segment came in our Women's and Men's divisions. The average selling price per pair within the domestic wholesale segment increased to \$24.33 per pair for 2010 from \$20.49 in 2009, primarily due to acceptance of new designs and styles for our in-demand products and reduced close-outs. The increase in domestic wholesale segment sales were based on a 24.9% unit sales volume increase to 46.5 million pairs in 2010 from 37.3 million pairs in 2009.

Our international wholesale segment net sales increased \$108.2 million, or 32.9%, to \$436.6 million in 2010 compared to sales of \$328.5 million in 2009. Direct subsidiary sales increased \$88.5 million, or 39.1%, to \$314.8 million compared to sales of \$226.3 million in 2009. The largest sales increases came from our subsidiaries in Chile, Canada, and Germany. Our distributor sales





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increased \$19.8 million, or 19.3%, to \$121.9 million in 2010, compared to sales of \$102.1 million in 2009. This was primarily due to increased sales to our distributors in Korea, UAE, and Russia.

Our retail segment net sales increased \$88.9 million, or 27.6% to \$410.7 million in 2010, compared to sales of \$321.8 million in 2009. The increase in retail sales was due to positive comparable store sales of 15.2% (i.e. those open at least one year) and a net increase of 41 stores. For the year ended December 31, 2010, we realized positive comparable store sales of 15.9% in our domestic retail stores and 8.7% in our international retail stores. During the year ended December 31, 2010, we opened 15 new domestic concept stores, seven domestic outlet stores, three domestic warehouse stores, six international concept stores and 11 international outlet stores. Our domestic retail sales increased 24.1% for the year ended December 31, 2010 compared to the same period in 2009 due to positive comparable store sales and a net increase of 24 domestic stores. Our international retail sales increased 62.1% for the year ended December 31, 2010 compared to the same period in 2009 attributable to positive comparable store sales and a net increase of 17 international stores.

We closed one domestic store in 2010 and two domestic stores in 2009. We periodically review all of our stores for impairment. During 2010, we did not record an impairment charge. During 2009, we recorded an impairment charge of \$0.8 million related to three of our domestic stores.

Our e-commerce net sales increased \$5.0 million to \$27.6 million in 2010, a 22.0% increase over sales of \$22.6 million in 2009. Our e-commerce sales made up approximately 1% of our consolidated net sales in 2010 and 2009.

***Gross profit***

Gross profit for 2010 increased \$290.9 million to \$911.9 million from \$621.0 million in 2009. Gross profit as a percentage of net sales, or gross margin, increased to 45.4% in 2010 from 43.2% in 2009. Gross profit for our domestic wholesale segment increased \$168.1 million, or 57.5%, to \$460.4 million in 2010 from \$292.3 million in 2009. Domestic wholesale margins increased to 40.7% in 2010 from 38.3% for 2009. The increase in domestic wholesale margins was due to increased average selling prices, less closeouts and more in-demand inventory.

Gross profit for our international wholesale segment increased \$63.1 million, or 53.3%, to \$181.5 million for 2010 compared to \$118.4 million in 2009. Gross margins were 41.6% for 2010 compared to 36.1% in 2009. The increase in gross margins for our international wholesale segment was due to less closeouts and more in-demand inventory. International wholesale sales through our foreign subsidiaries historically have achieved higher gross margins than our international wholesale sales through our foreign distributors. Gross margins for our direct subsidiary sales were 47.3% in 2010 as compared to 40.0% in 2009. Gross margins for our distributor sales were 26.8% in 2010 as compared to 27.3% in 2009.

Gross profit for our retail segment increased \$57.7 million, or 29.1%, to \$255.9 million in 2010 as compared to \$198.2 million in 2009. Gross margins for all stores were 62.3% for 2010 compared to 61.6% in 2009. Gross margins for our domestic stores were 62.3% in 2010 as compared to 60.7% in 2009. Gross margins for our international stores were 62.3% in 2010 as compared to 70.5% in 2009. The increase in retail margins was due to less closeouts and more in-demand inventory.

***Selling expenses***

Selling expenses increased by \$57.7 million, or 44.8%, to \$186.7 million for 2010 from \$129.0 million in 2009. As a percentage of net sales, selling expenses were 9.3% and 9.0% in 2010 and 2009, respectively. The increase in selling expenses was primarily due to advertising expenses that increased by \$52.1 million for the year ended December 31, 2010.

***General and administrative expenses***

General and administrative expenses increased by \$110.6 million, or 26.2%, to \$534.2 million for 2010 from \$423.4 million in 2009. As a percentage of sales, general and administrative expenses were 26.6% and 29.5% in 2010 and 2009, respectively. The increase in general and administrative expenses was primarily due to increased salaries and wages of \$44.0 million that included \$13.7 million in stock compensation costs, increased professional fees of \$9.7 million, higher rent expense of \$8.7 million due to an additional 41 stores, increased temporary help costs of \$6.1 million, and higher outside service fees of \$5.6 million. In addition, the expenses related to our distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of our products totaled \$119.1 million and \$109.2 million for 2010 and 2009, respectively. The \$9.9 million increase was primarily due to significantly higher sales volumes.

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### ***Interest income***

Interest income for 2010 increased \$0.7 million to \$2.8 million as compared to \$2.1 million for the same period in 2009. The increase in interest income was primarily due to interest received on refunds of customs and duties payments for the year ended December 31, 2010.

### ***Interest expense***

Interest expense was \$3.0 million for both 2010 and 2009. Interest expense was incurred on our mortgages for our domestic distribution center and our corporate office located in Manhattan Beach, California, and on amounts owed to our foreign manufacturers.

### ***Income taxes***

The effective tax rate for 2010 was 30.6% as compared to 28.4% in 2009. Income tax expense for 2010 was \$60.2 million compared to \$20.2 million for 2009. The increase in income taxes was primarily due to increased earnings before taxes.

Income taxes were computed using the effective tax rates applicable to each of our domestic and international taxable jurisdictions. The rate for the year ended December 31, 2010 was lower than the expected domestic federal and state rate of approximately 40% due to our non-U.S. subsidiary earnings in lower tax rate jurisdictions and our planned permanent reinvestment of undistributed earnings from our non-U.S. subsidiaries, thereby indefinitely postponing their repatriation to the United States. As such, we did not provide for deferred income taxes on accumulated undistributed earnings of our non-U.S. subsidiaries. As of December 31, 2010, withholding and U.S. taxes have not been recorded on approximately \$131.7 million of cumulative undistributed earnings.

### ***Noncontrolling interest in net income and loss of consolidated subsidiaries***

Noncontrolling interest for 2010 increased \$4.1 million to income of \$0.3 million as compared to a loss of \$3.8 million for the same period in 2009. Noncontrolling interest represents the share of net earnings or loss that is attributable to our joint venture partners.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our working capital at December 31, 2011 was \$578.9 million, a decrease of \$87.2 million from working capital of \$666.1 million at December 31, 2010. Our cash at December 31, 2011 was \$351.1 million compared to \$233.6 million at December 31, 2010. The increase in cash of \$117.5 million was the result of reduced inventory levels of \$170.2 million, lower receivables of \$86.1 million, and increased borrowings of \$69.3 million, partially offset by capital expenditures of \$122.2 million and net loss of \$67.5 million.

During 2011, net cash provided by operating activities was \$164.9 million compared to net cash used of \$47.4 million for 2010. The increase in net cash provided by operating activities in 2011 as compared to the same period in the prior year was the result of reduced inventory levels and lower receivable balances, partially offset by reduced earnings and decreased payables.

Net cash used in investing activities was \$105.1 million for 2011 as compared to \$52.3 million in 2010. The increase in cash used in investing activities in 2011 as compared to 2010 was the result of increased capital expenditures and the maturity of short-term investments in the prior year partially offset by the sale of our Ontario, California distribution center. Capital expenditures for 2011 were approximately \$122.2 million, which consisted of \$40.9 million of development costs for our new distribution center, \$44.2 million in warehouse equipment upgrades, and \$27.5 million for new store openings and remodels. This was compared to capital expenditures of \$82.3 million in the prior year, which primarily consisted of new store openings and remodels and development costs for our new distribution center. During 2011, we received \$17.1 million in sale proceeds from our Ontario, California distribution center. We expect our ongoing capital expenditures for the remainder of 2012 to be between \$15 million and \$20 million, which includes opening between 18 to 20 retail stores as well as investments in information technology. We believe our operating cash flows, current cash, available lines of credit and current financing arrangements should be adequate to fund these capital expenditures, although we may seek additional funding for all or a portion of these expenditures.

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Net cash provided by financing activities was \$60.4 million during 2011 compared to \$67.4 million during 2010. The decrease in cash provided by financing activities was primarily attributable to lower proceeds from the issuance of Class A common stock upon the exercise of stock options, partially offset by increased borrowings.

On December 29, 2010, we entered into a master loan and security agreement (the *Master Agreement*), by and between us and Banc of America Leasing & Capital, LLC, and an Equipment Security Note (together with the Master Agreement, the *Loan Documents*), by and among us, Banc of America Leasing & Capital, LLC, and Bank of Utah, as agent (*Agent*). We used the proceeds to refinance certain equipment already purchased and to purchase new equipment for use in our Rancho Belago distribution facility. Borrowings made pursuant to the Master Agreement may be in the form of one or more equipment security notes (each a *Note*, and, collectively, the *Notes*) up to a maximum limit of \$80.0 million and each for a term of 60 months. The Note entered into on the same date as the Master Agreement represents a borrowing of approximately \$39.3 million. Interest will accrue at a fixed rate of 3.54% per annum. On June 30, 2011, we entered into another Note agreement for approximately \$36.3 million. Interest will accrue at a fixed rate of 3.19% per annum. As of December 31, 2011, the total outstanding amount on these notes was \$68.3 million. We paid commitment fees of \$825,000 on this loan, which are being amortized over the five-year life of the facility.

On April 30, 2010, we entered into a construction loan agreement (the *Loan Agreement*), by and between HF Logistics-SKX, LLC and Bank of America, N.A. as administrative agent and as lender (*Bank of America* or the *Administrative Agent*) and Raymond James Bank, FSB. The proceeds from the Loan Agreement have been used to construct our domestic distribution facility in Rancho Belago, California. Borrowings made pursuant to the Loan Agreement may be made up to a maximum limit of \$55.0 million and the loan matures on April 30, 2012, which may be extended for six months, if certain conditions are met. We expect to be able to meet all of the conditions necessary to extend this agreement for six months and refinance the loan before October 30, 2012. Borrowings bear interest based on LIBOR. We had \$47.1 million outstanding under this facility, which is included in short-term borrowings on December 31, 2011. We paid commitment fees of \$737,500 on this loan, which are being amortized over the life of the facility.

On June 30, 2009, we entered into a \$250.0 million secured credit agreement, (the *Credit Agreement*) with a syndicate of seven banks that replaced the previous \$150 million credit agreement. On November 5, 2009, March 4, 2010 and May 3, 2011, we entered into three successive amendments to the Credit Agreement (collectively, the *Amended Credit Agreement*). The Amended Credit Agreement matures in June 2015. The credit agreement permits us and certain of our subsidiaries to borrow up to \$250.0 million based upon a borrowing base of eligible accounts receivable and inventory, which amount can be increased to \$300.0 million at our request and upon satisfaction of certain conditions including obtaining the commitment of existing or prospective lenders willing to provide the incremental amount. Borrowings bear interest at our election based on LIBOR or a Base Rate (defined as the greatest of the base LIBOR plus 1.00%, the Federal Funds Rate plus 0.5% or one of the lenders prime rate), in each case, plus an applicable margin based on the average daily principal balance of revolving loans under the credit agreement (1.00%, 1.25% or 1.50% for Base Rate loans and 2.00%, 2.25% or 2.50% for LIBOR loans). We pay a monthly unused line of credit fee of 0.375% or 0.5% per annum, which varies based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Amended Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of \$50.0 million. The Amended Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including a fixed charge coverage ratio that applies when excess availability is less than \$40.0 million. In addition, the Amended Credit Agreement places limits on additional indebtedness that we are permitted to incur as well as other restrictions on certain transactions. We paid syndication and commitment fees of \$6.7 million on this facility, which are being amortized over the remaining four-year life of the facility.

We had outstanding short-term and long-term borrowings of \$137.0 million as of December 31, 2011, of which \$68.3 million relates to notes payable for warehouse equipment for our new distribution center that are secured by the equipment, \$47.1 million relates to our construction loan for our new distribution center, \$18.3 million relates to a note for development costs paid by and due to HF for our new distribution center, and the remaining balance relates to our joint venture in China.

We believe that anticipated cash flows from operations, available borrowings under our secured line of credit, existing cash balances and current financing arrangements will be sufficient to provide us with the liquidity necessary to fund our anticipated working capital and capital requirements through December 31, 2012 and for the foreseeable future. However, in connection with our current strategies, we will incur significant working capital requirements and capital expenditures. Our future capital requirements will depend on many factors, including, but not limited to, the global recession and the pace of recovery in our markets, the levels at which we maintain inventory, sale of excess inventory at discounted prices, the market acceptance of our footwear, the success of our international operations, the levels of advertising and marketing required to promote our footwear, the extent to which we invest in new product design and improvements to our existing product design, any potential acquisitions of other brands or companies, and the



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number and timing of new store openings. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private financing of debt or equity. Recently, we have been successful 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.

**DISCLOSURE ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS**

The following table summarizes our material contractual obligations and commercial commitments as of December 31, 2011:

|  | <b>Total</b> | <b>Less than<br/>One<br/>Year</b> | <b>One to<br/>Three<br/>Years</b> | <b>Three to<br/>Five<br/>Years</b> | <b>More Than<br/>Five<br/>Years</b> |
|--|--------------|-----------------------------------|-----------------------------------|------------------------------------|-------------------------------------|
| Short-term borrowings (1)                      | \$ 51,371    | \$ 51,371                         | 0                                 | 0                                  | 0                                   |
| Long-term borrowings (1)                       | 93,299       | 12,202                            | \$ 42,719                         | \$ 38,378                          | 0                                   |
| Operating lease obligations (2)                | 803,482      | 99,750                            | 177,010                           | 151,551                            | \$ 375,171                          |
| Purchase obligations (3)                       | 350,634      | 350,633                           | 0                                 | 0                                  | 0                                   |
| Minimum payments related to other arrangements | 3,165        | 2,955                             | 209                               | 0                                  | 0                                   |
| Total (4)                                      | \$ 1,301,951 | \$ 516,913                        | \$ 219,938                        | \$ 189,929                         | \$ 375,171                          |

- (1) Amounts include anticipated interest payments.
- (2) Operating lease obligations consists primarily of real property leases for our retail stores, corporate offices and distribution center. These leases frequently include options that permit us to extend beyond the terms of the initial fixed term. Payments for these lease terms are provided for by cash flows generated from operations and existing cash balances.
- (3) Purchase obligations include the following: (i) accounts payable balances for the purchase of footwear of \$71.8 million, (ii) outstanding letters of credit of \$3.4 million and (iii) open purchase commitments with our foreign manufacturers for \$275.4 million. We currently expect to fund these commitments with cash flows from operations and existing cash balances.
- (4) Our consolidated balance sheet as of December 31, 2011, included \$10.9 million in unrecognized tax benefits. The future payments related to these unrecognized tax benefits have not been presented in the table above due to the uncertainty of the amounts and potential timing of cash settlements with the tax authorities, and whether any settlement would occur.

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any relationships with unconsolidated entities or financial partnerships such as entities often referred to as structured finance or special purpose entities that would have been 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 consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make difficult, subjective and complex estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities.

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We base our estimates and judgments on historical experience, other available information, and on 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. In determining whether an estimate is critical, we consider if the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment or the susceptibility of such matters to change, and if the impact of the estimates and assumptions on financial condition or operating performance is material. Actual results may differ from these estimates under different assumptions or conditions.

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We believe the following critical accounting estimates are affected by significant judgments used in the preparation of our consolidated financial statements: revenue recognition, allowance for bad debts, returns, sales allowances and customer chargebacks, inventory write-downs, valuation of long-lived assets, litigation reserves, valuation of deferred income taxes.

**Revenue Recognition.** We derive income from the sale of footwear and royalties earned from licensing the Skechers brand. Domestically, goods are shipped Free on Board ( FOB ) shipping point directly from our domestic distribution center in Rancho Belago, California. For our international wholesale customers in the European community, product is shipped FOB shipping point direct from our distribution center in Liege, Belgium. For our distributor sales, the goods are generally delivered directly from the independent factories to our distributors' freight forwarders on a Free Named Carrier ( FCA ) basis. We recognize revenue on wholesale sales when products are shipped and the customer takes title and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. This generally occurs at time of shipment. While customers do not have the right to return goods, we periodically decide 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. Related costs paid to third-party shipping companies are recorded as a cost of sales. We recognize revenue from retail sales at the point of sale.

Royalty income is earned from our licensing arrangements. Upon signing a new licensing agreement, we receive up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue as earned (i.e., as licensed sales are reported to the company or on a straight-line basis over the term of the agreement). The first calculated royalty payment is based on actual sales of the licensed product or, in some cases minimum royalty payments. Typically, at each quarter-end we receive correspondence from our licensees indicating what the actual sales for the period were. This information is used to calculate and accrue the related royalties currently receivable based on the terms of the agreement.

**Allowance for bad debts, returns, sales allowances and customer chargebacks.** We provide a reserve against our receivables for estimated losses that may result from our customers' inability to pay. To minimize the likelihood of uncollectibility, customers' credit-worthiness is reviewed periodically based on external credit reporting services, financial statements issued by the customer and our experience with the account, and it is adjusted accordingly. When a customer's account becomes significantly past due, we generally place a hold on the account and discontinue further shipments to that customer, minimizing further risk of loss. We determine the amount of the reserve by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' countries or industries, historical losses and our customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this reserve.

We also reserve for potential disputed amounts or chargebacks from our customers. Our chargeback reserve is based on a collectibility percentage based on factors such as historical trends, current economic conditions, and nature of the chargeback receivables. We also reserve for potential sales returns and allowances based on historical trends.

The likelihood of a material loss on an uncollectible account would be mainly dependent on deterioration in the overall economic conditions in a particular country or environment. Reserves are fully provided for all probable losses of this nature. For receivables that are not specifically identified as high risk, we provide a reserve based upon our historical loss rate as a percentage of sales. Gross trade accounts receivable balance were \$196.4 million and \$285.8 million and the allowance for bad debts, returns, sales allowances and customer chargebacks was \$20.4 million and \$19.7 million, at December 31, 2011 and 2010, respectively. The Company's credit losses due to write-offs for the years ended December 31, 2011, 2010 and 2009 were \$7.0 million, \$4.8 million and \$1.2 million, respectively.

**Inventory write-downs.** Inventories are stated at the lower of cost or market. We review our inventory on a regular basis for excess and slow moving inventory. Our review is based on inventory on hand, prior sales and our expected net realizable value. Our analysis includes a review of inventory quantities on hand at period end in relation to year-to-date sales, existing orders from customers and projections for sales in the near future. The net realizable value, or market value, is determined based on our estimate of sales prices of such inventory based upon historical sales experience on a style by style basis. A write-down of inventory is considered permanent and creates a new cost basis for those units. The likelihood of any material inventory write-down is dependent primarily on our expectation of future consumer demand for our product. A misinterpretation or misunderstanding of future consumer demand for our product or of the economy, or other failure to estimate correctly, could result in inventory valuation changes, either favorably or unfavorably, compared to the requirement determined to be appropriate as of the balance sheet date. Our gross inventory value was

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\$238.7 million and \$402.2 million and our inventory reserve was \$12.3 million and \$3.6 million, at December 31, 2011 and 2010, respectively. During the year ended December 31, 2011 we recorded \$10.0 million in inventory reserves for our toning products.

**Valuation of long-lived assets.** When circumstances warrant, we test for recoverability of the asset groups carrying value using estimates of undiscounted future cash flows based on the existing service potential of the applicable asset group in determining the fair value of each asset group. The assets are considered to be impaired if we determine that the carrying value may not be recoverable based upon our assessment of the following events or changes in circumstances:

the asset's ability to continue to generate income;

any loss of legal ownership or title to the asset(s);

any significant changes in our strategic business objectives and utilization of the asset(s); or

the impact of significant negative industry or economic trends.

If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. In addition, we base the useful lives and related amortization or depreciation expense on our estimate of the period that the assets will generate revenues or otherwise be used by us. If a change were to occur in any of the above-mentioned factors or estimates, the likelihood of a material change in our reported results would increase. In addition, we prepare a summary of store cash flows from our retail stores to assess potential impairment of the fixed assets and leasehold improvements. Stores with negative cash flows opened in excess of twenty-four months are then reviewed in detail to determine if impairment exists. Management reviews both quantitative and qualitative factors to assess if a triggering event occurred. For the year ended December 31, 2011, we recorded a \$1.5 million impairment charge for eleven of our underperforming domestic stores and \$1.6 million for intangible assets. For the year ended December 31, 2010, we did not record an impairment charge for our stores. For the year ended December 31, 2009, we recorded a \$0.8 million impairment charge for three of our domestic stores. We early adopted ASU 2011-08 during the year ended December 31, 2011. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

**Litigation reserves.** Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in our consolidated balance sheets. The likelihood of a material change in these estimated reserves would depend on new claims as they may arise and the favorable or unfavorable outcome of the particular litigation. Both the amount and range of loss on a large portion of the remaining pending litigation is uncertain. As such, we are unable to make a reasonable estimate of the liability that could result from unfavorable outcomes in litigation. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates. Such revisions in our estimates of the potential liability could materially impact our results of operations and financial position. For the year ended December 31, 2011, we recorded \$43.9 million in expense as a result of legal settlements.

**Valuation of deferred income taxes.** We record a valuation allowance when necessary to reduce our deferred tax assets to the amount that is more likely than not to be realized. The likelihood of a material change in our expected realization of our deferred tax assets depends on future taxable income and the effectiveness of our tax planning strategies amongst the various domestic and international tax jurisdictions in which we operate. We evaluate our projections of taxable income to determine the recoverability of our deferred tax assets and the need for a valuation allowance. As of December 31, 2011, we had net deferred tax assets of \$46.4 million reduced by a valuation allowance of \$11.1 million against loss carry-forwards not expected to be utilized by certain foreign subsidiaries.

**INFLATION**

We do not believe that the relatively moderate rates of inflation experienced in the United States over the last three years have had a significant effect on 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.





**Table of Contents****EXCHANGE RATES**

We receive U.S. dollars for substantially all of our domestic and a portion of our international product sales as well as our royalty income. Inventory purchases from offshore contract manufacturers are primarily denominated in U.S. dollars; however, 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. During 2011 and 2010, exchange rate fluctuations did not have a material impact on our inventory costs. We do not engage in hedging activities with respect to such exchange rate risk.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, ( ASU 2011-05 ). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is to be applied retrospectively. ASU 2011-05 is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. The adoption of this ASU only impacts the presentation of our consolidated financial statements and does not materially impact its consolidated financial statements.

In September 2011, the FASB issued Accounting Standard Update No. 2011-08, *Testing Goodwill for Impairment* ( ASU 2011-08 ), which changes the way a company completes its annual impairment review process. The provisions of this pronouncement provides an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU-2011-08 allows an entity the option to bypass the qualitative-assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. The pronouncement does not change the current guidance for testing other indefinite-lived intangible assets for impairment. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We early adopted ASU 2011-08 during the year ended December 31, 2011. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU expands existing disclosure requirements for fair value measurements and provides additional information on how to measure fair value. The Company is required to apply this ASU prospectively for interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not have a significant impact on our consolidated financial statements.

**ITEM 7A. 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, marketable debt security prices and foreign currency exchange rates. Changes in interest rates, marketable debt security prices and changes in foreign currency exchange rates have and will have an impact on our results of operations. We do not hold any derivative securities that require fair value presentation under ASC 815-10.

**Interest rate fluctuations.** Interest rate charged on our line of credit facility is based on either the prime rate of interest or the LIBOR, and changes in the either of these rates of interest could have an effect on the interest charged on our outstanding balances. At December 31, 2011 we had \$50.4 million of outstanding short-term borrowings subject to changes in interest rates; however, we do not expect that any changes will have a material impact on our financial condition or results of operations.

**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 subsidiary's 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 currently engage in hedging activities with respect to such exchange rate risks. A 200 basis point reduction in the exchange rates used to calculate foreign currency translations at December 31, 2011 would have reduced the values of our net investments by approximately \$6.5 million.



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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Skechers U.S.A., Inc.:

We have audited the accompanying consolidated balance sheets of Skechers U.S.A., Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Skechers U.S.A., Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the internal control over financial reporting of Skechers U.S.A., Inc. and subsidiaries as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2012, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California

February 29, 2012

**Table of Contents****SKECHERS U.S.A., INC.****CONSOLIDATED BALANCE SHEETS****(In thousands)**

|  | <b>December 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|------------------------------|------------------------------|
| <b>ASSETS</b>  |                              |                              |
| Current Assets:  |                              |                              |
| Cash and cash equivalents  | \$ 351,144                   | \$ 233,558                   |
| Trade accounts receivable, less allowances of \$20,423 in 2011 and \$19,697 in 2010  | 176,018                      | 266,057                      |
| Other receivables  | 6,636                        | 9,650                        |
| Total receivables  | 182,654                      | 275,707                      |
| Inventories  | 226,407                      | 398,588                      |
| Prepaid expenses and other current assets  | 88,005                       | 53,791                       |
| Deferred tax assets  | 39,141                       | 11,720                       |
| Total current assets   | 887,351                      | 973,364                      |
| Property, plant and equipment, at cost, less accumulated depreciation and amortization   | 376,446                      | 293,802                      |
| Goodwill and other intangible assets, less accumulated amortization  | 4,148                        | 7,367                        |
| Deferred tax assets  | 530                          | 12,323                       |
| Other assets, at cost  | 13,413                       | 17,938                       |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,281,888</b>          | <b>\$ 1,304,794</b>          |
| <b>LIABILITIES AND EQUITY</b>  |                              |                              |
| Current Liabilities:   |                              |                              |
| Current installments of long-term borrowings   | \$ 10,059                    | \$ 11,984                    |
| Short-term borrowings  | 50,413                       | 18,346                       |
| Accounts payable   | 231,000                      | 246,595                      |
| Accrued expenses   | 16,994                       | 30,385                       |
| Total current liabilities  | 308,466                      | 307,310                      |
| Long-term borrowings, excluding current installments   | 76,531                       | 51,650                       |
| Deferred tax liabilities   | 4,364                        | 0                            |
| Total liabilities  | 389,361                      | 358,960                      |
| Commitments and contingencies  |                              |                              |
| Stockholders' equity:  |                              |                              |
| Preferred Stock, \$.001 par value; 10,000 authorized; none issued and outstanding  | 0                            | 0                            |
| Class A Common Stock, \$.001 par value; 100,000 shares authorized; 37,959 and 36,894 shares issued and outstanding at December 31, 2011 and 2010, respectively | 38                           | 37                           |
| Class B Common Stock, \$.001 par value; 60,000 shares authorized; 11,297 and 11,311 shares issued and outstanding at December 31, 2011 and 2010, respectively  | 11                           | 11                           |
| Additional paid-in capital   | 320,877                      | 303,877                      |
| Accumulated other comprehensive income (loss)  | (894)                        | 4,265                        |
| Retained earnings  | 532,529                      | 600,013                      |
| Skechers U.S.A., Inc. equity   | 852,561                      | 908,203                      |
| Noncontrolling interests   | 39,966                       | 37,631                       |

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|                                     |                     |                     |
|-------------------------------------|---------------------|---------------------|
| Total equity                        | 892,527             | 945,834             |
| <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 1,281,888</b> | <b>\$ 1,304,794</b> |

See accompanying notes to consolidated financial statements.

**Table of Contents****SKECHERS U.S.A., INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

|  | <b>Years ended December 31,</b> |              |              |
|--|---------------------------------|--------------|--------------|
|  | <b>2011</b>                     | <b>2010</b>  | <b>2009</b>  |
| Net sales  | \$ 1,606,016                    | \$ 2,006,868 | \$ 1,436,440 |
| Cost of sales  | 982,268                         | 1,094,962    | 815,430      |
| Gross profit   | 623,748                         | 911,906      | 621,010      |
| Royalty income, net  | 7,558                           | 4,568        | 1,655        |
|  | 631,306                         | 916,474      | 622,665      |
| Operating expenses:  |                                 |              |              |
| Selling  | 152,000                         | 186,738      | 128,989      |
| General and administrative   | 569,164                         | 532,996      | 421,094      |
| Legal settlements  | 43,935                          | 1,172        | 2,327        |
|  | 765,099                         | 720,906      | 552,410      |
| Earnings (loss) from operations                                      | (133,793)                       | 195,568      | 70,255       |
| Other income (expense):  |                                 |              |              |
| Interest income  | 1,851                           | 2,802        | 2,070        |
| Interest expense   | (7,853)                         | (3,022)      | (3,045)      |
| Gain on disposal of assets   | 9,632                           | 44           | 20           |
| Gain (loss) on foreign currency transactions                         | (884)                           | 1,211        | 1,810        |
|  | 2,746                           | 1,035        | 855          |
| Earnings (loss) before income taxes (benefit)                        | (131,047)                       | 196,603      | 71,110       |
| Income tax expense (benefit)   | (63,467)                        | 60,198       | 20,228       |
| Net earnings (loss)  | (67,580)                        | 136,405      | 50,882       |
| Less: Net earnings (loss) attributable to noncontrolling interests   | (96)                            | 257          | (3,817)      |
| Net earnings (loss) attributable to Skechers U.S.A., Inc.            | \$ (67,484)                     | \$ 136,148   | \$ 54,699    |
| Net earnings (loss) per share attributable to Skechers U.S.A., Inc.: |                                 |              |              |
| Basic  | \$ (1.39)                       | \$ 2.87      | \$ 1.18      |
| Diluted  | \$ (1.39)                       | \$ 2.78      | \$ 1.16      |



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Weighted average shares used in calculating earnings (loss) per share attributable to Skechers  
U.S.A., Inc.:

|         |        |        |        |
|---------|--------|--------|--------|
| Basic   | 48,491 | 47,433 | 46,341 |
| Diluted | 48,491 | 49,050 | 47,105 |

See accompanying notes to consolidated financial statements.

**Table of Contents****SKECHERS U.S.A., INC.****CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME (LOSS)**

(In thousands)

|   | SHARES  |         | AMOUNT  |         | ACCUMULATED |                                | OTHER      | SKECHERS     | NON         | TOTAL        |
|---|---------|---------|---------|---------|-------------|--------------------------------|------------|--------------|-------------|--------------|
|   | CLASS A | CLASS B | CLASS A | CLASS B | ADDITIONAL  | PAID-IN                        |            |              |             |              |
|   | COMMON  | COMMON  | COMMON  | COMMON  | PAID-IN     | COMPREHENSIVE                  | RETAINED   | U.S.A., INC. | CONTROLLING | STOCKHOLDERS |
|   | STOCK   | STOCK   | STOCK   | STOCK   | CAPITAL     | <u>INCOME</u><br><u>(LOSS)</u> | EARNINGS   | EQUITY       | INTERESTS   | EQUITY       |
| Balance at December 31, 2008  | 33,410  | 12,782  | \$ 33   | \$ 13   | \$ 264,200  | \$ (4,719)                     | \$ 409,166 | \$ 668,693   | \$ 3,199    | \$ 671,892   |
| Comprehensive income:   |         |         |         |         |             |                                |            |              |             |              |
| Net earnings  | --      | --      | --      | --      | --          | --                             | 54,699     | 54,699       | (3,817)     | 50,882       |
| Net unrealized gain (loss) on investments                                     | --      | --      | --      | --      | --          | 8,151                          | --         | 8,151        | --          | 8,151        |
| Foreign currency translation adjustment                                       | --      | --      | --      | --      | --          | 5,916                          | --         | 5,916        | 66          | 5,982        |
| Total comprehensive income  |         |         |         |         |             |                                |            | 68,766       | (3,751)     | 65,015       |
| Capital contribution  | --      | --      | --      | --      | --          | --                             | --         | --           | 4,000       | 4,000        |
| Stock compensation expense  | --      | --      | --      | --      | 5,736       | --                             | --         | 5,736        | --          | 5,736        |
| Proceeds from issuance of common stock under the employee stock purchase plan | 190     | --      | --      | --      | 1,590       | --                             | --         | 1,590        | --          | 1,590        |
| Proceeds from issuance of common stock under the employee stock option plan   | 207     | --      | --      | --      | 1,217       | --                             | --         | 1,217        | --          | 1,217        |
| Tax benefit of stock options exercised  | --      | --      | --      | --      | (81)        | --                             | --         | (81)         | --          | (81)         |

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|   |        |         |       |       |            |          |            |            |           |            |
|---|--------|---------|-------|-------|------------|----------|------------|------------|-----------|------------|
| Conversion of Class B Common Stock into Class A Common Stock                  | 422    | (422)   | 1     | --    | --         | --       | --         | 1          | --        | 1          |
| Balance at December 31, 2009  | 34,229 | 12,360  | \$ 34 | \$ 13 | \$ 272,662 | \$ 9,348 | \$ 463,865 | \$ 745,922 | \$ 3,448  | \$ 749,370 |
| Comprehensive income:   |        |         |       |       |            |          |            |            |           |            |
| Net earnings  | --     | --      | --    | --    | --         | --       | 136,148    | 136,148    | 257       | 136,405    |
| Foreign currency translation adjustment                                       | --     | --      | --    | --    | --         | (5,083)  | --         | (5,083)    | 426       | (4,657)    |
| Total comprehensive income  |        |         |       |       |            |          |            | 131,065    | 683       | 131,748    |
| Capital contribution  | --     | --      | --    | --    | --         | --       | --         | --         | 33,500    | 33,500     |
| Stock compensation expense  | --     | --      | --    | --    | 13,739     | --       | --         | 13,739     | --        | 13,739     |
| Proceeds from issuance of common stock under the employee stock purchase plan | 103    | --      | --    | --    | 2,143      | --       | --         | 2,143      | --        | 2,143      |
| Proceeds from issuance of common stock under the employee stock option plan   | 1,513  | --      | 2     | --    | 11,895     | --       | --         | 11,897     | --        | 11,897     |
| Tax benefit of stock options exercised  | --     | --      | --    | --    | 9,042      | --       | --         | 9,042      | --        | 9,042      |
| Shares redeemed for employee tax withholdings                                 | --     | --      | --    | --    | (5,604)    | --       | --         | (5,604)    | --        | (5,604)    |
| Conversion of Class B Common Stock into Class A Common Stock                  | 1,049  | (1,049) | 1     | (2)   | --         | --       | --         | (1)        | --        | (1)        |
| Balance at December 31, 2010  | 36,894 | 11,311  | \$ 37 | \$ 11 | \$ 303,877 | \$ 4,265 | \$ 600,013 | \$ 908,203 | \$ 37,631 | \$ 945,834 |
| Comprehensive income (loss):  |        |         |       |       |            |          |            |            |           |            |
| Net loss  | --     | --      | --    | --    | --         | --       | (67,484)   | (67,484)   | (96)      | (67,580)   |
| Foreign currency translation adjustment                                       | --     | --      | --    | --    | --         | (5,159)  | --         | (5,159)    | 316       | (4,843)    |
| Total comprehensive income (loss)   |        |         |       |       |            |          |            | (72,643)   | 220       | (72,423)   |
| Capital contribution  | --     | --      | --    | --    | --         | --       | --         | --         | 2,115     | 2,115      |
| Stock compensation  | --     | --      | --    | --    | 14,320     | --       | --         | 14,320     | --        | 14,320     |

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|   |        |        |       |       |            |          |            |            |           |            |
|---|--------|--------|-------|-------|------------|----------|------------|------------|-----------|------------|
| expense   |        |        |       |       |            |          |            |            |           |            |
| Proceeds from issuance of common stock under the employee stock purchase plan | 178    | --     | --    | --    | 2,023      | --       | --         | 2,023      | --        | 2,023      |
| Proceeds from issuance of common stock under the employee stock option plan   | 873    | --     | 1     | --    | 1,297      | --       | --         | 1,298      | --        | 1,298      |
| Tax benefit of stock options exercised  | --     | --     | --    | --    | (640)      | --       | --         | (640)      | --        | (640)      |
| Conversion of Class B Common Stock into Class A Common Stock                  | 14     | (14)   | --    | --    | --         | --       | --         | --         | --        | --         |
| Balance at December 31, 2011  | 37,959 | 11,297 | \$ 38 | \$ 11 | \$ 320,877 | \$ (894) | \$ 532,529 | \$ 852,561 | \$ 39,966 | \$ 892,527 |

See accompanying notes to consolidated financial statements

**Table of Contents****SKECHERS U.S.A., INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

|   | Years ended December 31, |            |           |
|---|--------------------------|------------|-----------|
|   | 2011                     | 2010       | 2009      |
| <b>Cash flows from operating activities:</b>  |                          |            |           |
| Net earnings (loss)   | \$ (67,484)              | \$ 136,148 | \$ 54,699 |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:            |                          |            |           |
| Noncontrolling interests in subsidiaries  | (96)                     | 258        | (3,817)   |
| Depreciation of property, plant and equipment   | 33,652                   | 24,707     | 19,694    |
| Amortization of deferred financing costs  | 1,128                    | 1,482      | 741       |
| Amortization of intangible assets   | 1,580                    | 1,683      | 935       |
| Provision for bad debts and returns   | 5,882                    | 6,212      | 3,249     |
| Tax benefits from stock-based compensation  | (640)                    | 0          | (81)      |
| Non-cash stock compensation   | 14,320                   | 13,739     | 5,736     |
| Deferred income taxes   | (7,863)                  | (5,170)    | 1,954     |
| Inventory write-down  | 9,971                    | 0          | 0         |
| (Gain) loss on disposal of equipment  | (9,632)                  | 36         | (18)      |
| Impairment of property, plant and equipment   | 1,481                    | 0          | 761       |
| Impairment of intangible assets   | 1,649                    | 0          | 0         |
| (Increase) decrease in assets:  |                          |            |           |
| Receivables   | 86,114                   | (50,040)   | (46,562)  |
| Inventories   | 160,241                  | (172,417)  | 39,362    |
| Prepaid expenses and other current assets   | (38,247)                 | (21,402)   | 2,812     |
| Other assets  | 3,291                    | (7,571)    | (1,023)   |
| Increase (decrease) in liabilities:   |                          |            |           |
| Accounts payable  | (18,074)                 | 32,828     | 28,136    |
| Accrued expenses  | (12,354)                 | (7,872)    | 8,531     |
| Net cash provided by (used in) operating activities   | 164,919                  | (47,379)   | 115,109   |
| <b>Cash flows from investing activities:</b>  |                          |            |           |
| Capital expenditures  | (122,238)                | (82,269)   | (35,341)  |
| Purchases of investments  | 0                        | 0          | (30,000)  |
| Maturities of investments   | 0                        | 30,000     | 375       |
| Redemption of auction rate securities   | 0                        | 0          | 95,250    |
| Proceeds from the sale of property, plant and equipment   | 17,100                   | 0          | 0         |
| Intangible additions  | (10)                     | (41)       | (4,500)   |
| Net cash (used in) provided by investing activities   | (105,148)                | (52,310)   | 25,784    |
| <b>Cash flows from financing activities:</b>  |                          |            |           |
| Net proceeds from the issuances of stock through employee stock purchase plan and the exercise of stock options |                          |            |           |
|   | 3,321                    | 14,040     | 2,807     |
| Shares redeemed for employee tax withholdings   | 0                        | (5,604)    | 0         |
| Contribution from noncontrolling interest of consolidated entity  | 2,115                    | 3,500      | 4,000     |
| Excess tax benefits from stock-based compensation   | 0                        | 9,042      | 0         |
| Increase in short-term borrowings   | 31,958                   | 16,271     | 2,006     |
| Proceeds from long-term debt  | 37,326                   | 39,293     | 0         |
| Payments on long-term debt  | (14,287)                 | (9,121)    | (413)     |

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|   |            |            |            |
|---|------------|------------|------------|
| Net cash provided by financing activities             | 60,433     | 67,421     | 8,400      |
| Net increase (decrease) in cash and cash equivalents  | 120,204    | (32,268)   | 149,293    |
| Effect of exchange rates on cash and cash equivalents | (2,618)    | 151        | 1,441      |
| Cash and cash equivalents at beginning of year        | 233,558    | 265,675    | 114,941    |
| Cash and cash equivalents at end of year              | \$ 351,144 | \$ 233,558 | \$ 265,675 |

Supplemental disclosures of cash flow information:

Cash paid during the year for:

|              |          |          |          |
|--------------|----------|----------|----------|
| Interest     | \$ 7,692 | \$ 3,438 | \$ 4,445 |
| Income taxes | 15,772   | 87,063   | 17,492   |

Non-cash transactions:

|  |   |        |       |
|--|---|--------|-------|
| Land contribution from noncontrolling interest         | 0 | 30,000 | 0     |
| Note payable contribution from noncontrolling interest | 0 | 17,358 | 0     |
| Acquisition of Chilean distributor                     | 0 | 0      | 4,382 |

See accompanying notes to consolidated financial statements.

**Table of Contents****SKECHERS U.S.A., INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2011, 2010 and 2009****(1) THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) The Company and Basis of Presentation**

Skechers U.S.A., Inc. (the Company) designs, develops, markets and distributes footwear. The Company also operates 329 retail stores and an e-commerce business as of December 31, 2011.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

**(b) Use of Estimates**

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States. Significant areas requiring the use of management estimates relate primarily to revenue recognition, allowance for bad debts, returns, sales allowances and customer chargebacks, inventory write-downs, valuation of long-lived assets, litigation reserves and valuation of deferred income taxes. Actual results could differ from those estimates.

**(c) Noncontrolling interests**

The Company has interests in certain joint ventures which are consolidated into its financial statements. Noncontrolling interest income (loss) was (\$0.1) million, \$0.3 million and (\$3.8) million for the years ended December 31, 2011, 2010 and 2009, respectively, which represents the share of net earnings or loss that is attributable to our joint venture partners. Our joint venture partners made a cash capital contribution of \$2.1 million during the year ended December 31, 2011.

The Company has determined that its joint venture with HF Logistics I, LLC (HF) is a variable interest entity (VIE) and that the Company is the primary beneficiary. The VIE is consolidated into the consolidated financial statements and the carrying amounts and classification of assets and liabilities were as follows (in thousands):

|                        | <b>December 31, 2011</b> | <b>December 31, 2010</b> |
|------------------------|--------------------------|--------------------------|
| Current assets         | \$ 11,287                | \$ 6,058                 |
| Noncurrent assets      | 132,925                  | 107,723                  |
| <b>Total assets</b>    | <b>\$ 144,212</b>        | <b>\$ 113,781</b>        |
| Current liabilities    | \$ 65,608                | \$ 36,364                |
| Noncurrent liabilities | 18,297                   | 17,359                   |

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|                   |           |           |
|-------------------|-----------|-----------|
| Total liabilities | \$ 83,905 | \$ 53,723 |
|-------------------|-----------|-----------|

The assets of the joint ventures are restricted in that they are not available for our general business use outside the context of the joint venture. The holders of the liabilities of each joint venture have no recourse to Skechers U.S.A., Inc. The Company does not have a significant variable interest in any unconsolidated VIE s.

### (d) Business Segment Information

Skechers operations and segments are organized along its distribution channels and consist of the following: domestic wholesale, international wholesale, retail and e-commerce sales. Information regarding these segments is summarized in Note 12 to the Consolidated Financial Statements.

### (e) Revenue Recognition

The Company recognizes revenue on wholesale sales when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. This generally occurs at the time of shipment. Wholesale and e-commerce sales are recognized on a net sales basis, which reflects allowances for estimated returns, sales allowances, discounts, chargebacks and amounts billed for



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shipping and handling costs. Shipping and handling costs paid by the Company are included in cost of sales. The Company recognizes revenue from retail sales at the point of sale. The Company currently presents sales tax collected from customers on a net basis.

Net royalty income is earned from our licensing arrangements. Upon signing a new licensing agreement, we receive up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue when earned based on the terms of the contract as licensed sales are reported to the company or on a straight-line basis over the term of the agreement. The first calculated royalty payment is based on actual sales of the licensed product. Typically, at each quarter-end we receive correspondence from our licensees indicating actual sales for the period. This information is used to calculate and accrue the related royalties based on the terms of the agreement.

(f) Allowance for Bad Debts, Returns, Sales Allowances and Customer Chargebacks

The Company provides a reserve against its receivables for estimated losses that may result from its customers' inability to pay. To minimize the likelihood of uncollectibility, customers' credit-worthiness is reviewed periodically based on external credit reporting services, financial statements issued by the customer and the Company's experience with the account, and it is adjusted accordingly. When a customer's account becomes significantly past due, the Company generally places a hold on the account and discontinues further shipments to that customer, minimizing further risk of loss. The Company determines the amount of the reserve by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' countries or industries, historical losses and its customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this reserve.

The Company also reserves for potential disputed amounts or chargebacks from its customers. The Company's chargeback reserve is based on a collectibility percentage based on factors such as historical trends, current economic conditions, and nature of the chargeback receivables. The Company also reserves for potential sales returns and allowances based on historical trends.

The likelihood of a material loss on an uncollectible account would be mainly dependent on deterioration in the overall economic conditions in a particular country or environment. Reserves are fully provided for all probable losses of this nature. For receivables that are not specifically identified as high risk, the Company provides a reserve based upon our historical loss rate as a percentage of sales.

(g) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of certificates of deposit with an initial term of less than three months. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(h) Foreign Currency Translation

In accordance with ASC 830-30, certain international operations use the respective local currencies as their functional currency, while other international operations use the U.S. Dollar as their functional currency. The Company considers the U.S. dollar as its functional currency. The Company operates internationally through several foreign subsidiaries. Translation adjustments for these subsidiaries are included in other comprehensive income (loss). Additionally, one international subsidiary, Skechers S.a.r.l. located in Switzerland, operates with a functional currency of the U.S. dollar. Resulting re-measurement gains and losses from this subsidiary are included in the determination of net earnings (loss). Assets and liabilities of the foreign operations denominated in local currencies are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the weighted average rate of exchange during the period. Translations of intercompany loans of a long-term investment nature are included as a component of translation adjustment in other comprehensive income (loss).

(i) 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 upon inventory on hand, historical sales activity, industry trends, the retail environment, and the expected net realizable value. The net realizable value is determined based upon estimated sales prices of such inventory through off-price or discount store channels. The

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Company recorded \$10.0 million in inventory reserves for our toning products during the year ended December 31, 2011.

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## (j) Income Taxes

The Company accounts for income taxes in accordance with ASC 740-10, which requires that the Company recognize deferred tax liabilities for taxable temporary differences and deferred tax assets for deductible temporary differences and operating loss carry-forwards using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit or expense is recognized as a result of changes in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all of any deferred tax assets will not be realized.

## (k) Depreciation and Amortization

Depreciation and amortization of property, plant and equipment is computed using the straight-line method based on the following estimated useful lives:

|                                   |   |
|-----------------------------------|---|
| Buildings                         | 20 years  |
| Building improvements             | 10 years  |
| Furniture, fixtures and equipment | 5 to 20 years   |
| Leasehold improvements            | Useful life or remaining lease term, whichever is shorter |

## (l) Goodwill and Intangible assets

Goodwill and intangible assets are measured for impairment at least annually and more often when events indicate that impairment exists. Intellectual property, which include purchased intellectual property, artwork and design, trade name and trademark are amortized over their useful lives ranging from 1 to 10 years, generally on a straight-line basis. Intangible assets, which were primarily allocated to the domestic wholesale segment, as of December 31, 2011 and 2010 are as follows (in thousands):

|                                | 2011            | 2010            |
|--------------------------------|-----------------|-----------------|
| Intellectual property          | \$ 7,840        | \$ 11,331       |
| Goodwill                       | 1,575           | 1,575           |
| Other intangibles              | 0               | 840             |
| Less accumulated amortization  | (5,267)         | (6,379)         |
| <b>Total Intangible Assets</b> | <b>\$ 4,148</b> | <b>\$ 7,367</b> |

We recorded amortization expense of \$2.7 million, \$3.2 million and \$1.7 million for the years ended December 31, 2011, 2010 and 2009, respectively, in general and administrative expenses. The Company recorded \$1.6 million in impairment charges on certain acquired intangibles during the year ended December 31, 2011. The Company did not record impairment charges during the years ended December 31, 2010 or December 31, 2009. We early adopted ASU 2011-08 during the year ended December 31, 2011. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

## (m) Long-Lived Assets

Long-lived assets such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We prepare a summary of store cash flows from our retail stores to assess potential impairment of the fixed assets and leasehold improvements. Stores with negative cash flows opened in excess of twenty-four months are then reviewed in detail to determine if impairment exists. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Management reviews both quantitative and qualitative

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factors to assess if a triggering event occurred. The Company recorded \$1.5 million in impairment charges during the year ended December 31, 2011. The Company did not record impairment charges during the year ended December 31, 2010. The Company recorded impairment charges during the year ended December 31, 2009 of \$0.8 million.

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## (n) Advertising Costs

Advertising costs are expensed in the period in which the advertisements are first run or over the life of the endorsement contract. Advertising expense for the years ended December 31, 2011, 2010 and 2009 was approximately \$119.3 million, \$154.6 million and \$98.3 million, respectively. Prepaid advertising costs were \$4.7 million and \$11.5 million at December 31, 2011 and 2010, respectively. Prepaid amounts outstanding at December 31, 2011 and 2010, represent the unamortized portion of endorsement contracts, advertising in trade publications and media productions created which had not run as of December 31, 2011 and 2010, respectively.

## (o) Net Earnings (loss) Per Share Attributable to Skechers U.S.A., Inc.

Basic earnings (loss) per share represents net earnings (loss) divided by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share, in addition to the weighted average determined for basic earnings (loss) per share, includes potential common shares which would arise from the exercise of stock options using the treasury stock method.

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

| Basic earnings (loss) per share            | Years Ended December 31, |            |           |
|--|--------------------------|------------|-----------|
|  | 2011                     | 2010       | 2009      |
| Net earnings (loss)                        | \$ (67,484)              | \$ 136,148 | \$ 54,699 |
| Weighted average common shares outstanding | 48,491                   | 47,433     | 46,341    |
| Basic earnings (loss) per share            | \$ (1.39)                | \$ 2.87    | \$ 1.18   |

| Diluted earnings (loss) per share          | Years Ended December 31, |            |           |
|--|--------------------------|------------|-----------|
|  | 2011                     | 2010       | 2009      |
| Net earnings (loss)                        | \$ (67,484)              | \$ 136,148 | \$ 54,699 |
| Weighted average common shares outstanding | 48,491                   | 47,433     | 46,341    |
| Dilutive stock options                     | 0                        | 1,617      | 764       |
| Weighted average common shares outstanding | 48,491                   | 49,050     | 47,105    |
| Diluted earnings (loss) per share          | \$ (1.39)                | \$ 2.78    | \$ 1.16   |

There were no options excluded from the computation of diluted earnings (loss) per share for the year ended December 31, 2011 or 2010. Options to purchase 362,653 shares of Class A common stock were excluded from the computation of diluted earnings per share for the year ended December 31, 2009, because their inclusion would have been anti-dilutive.

## (p) Product Design and Development Costs

The Company charges all product design and development costs to expense when incurred. Product design and development costs aggregated approximately \$15.9 million, \$12.6 million and \$9.3 million during the years ended December 31, 2011, 2010 and 2009, respectively.

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### (q) Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments, which principally include cash and cash equivalents, investments, accounts receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The carrying amount of the Company's long-term borrowings approximates the fair value based upon current rates and terms available to the Company for similar debt.

**Table of Contents****(r) Comprehensive Income**

Comprehensive income consists of net earnings, foreign currency translation adjustments, and net unrealized gain (loss) on investments. Comprehensive income is presented in the consolidated statements of equity and comprehensive income (loss). Components of accumulated other comprehensive income (loss) consist of foreign currency translation adjustments and net unrealized gain (loss) on investments.

**(s) New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, ( ASU 2011-05 ). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is to be applied retrospectively. ASU 2011-05 is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. The adoption of this ASU only impacts the presentation of the Company's consolidated financial statements and does not materially impact its consolidated financial statements.

In September 2011, the FASB issued Accounting Standard Update No. 2011-08, *Testing Goodwill for Impairment* ( ASU 2011-08 ), which changes the way a company completes its annual impairment review process. The provisions of this pronouncement provides an entity with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that is more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU-2011-08 allows an entity the option to bypass the qualitative-assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. The pronouncement does not change the current guidance for testing other indefinite-lived intangible assets for impairment. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We early adopted ASU 2011-08 during the year ended December 31, 2011. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU expands existing disclosure requirements for fair value measurements and provides additional information on how to measure fair value. The Company is required to apply this ASU prospectively for interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not have a significant impact on the Company's consolidated financial statements.

**(2) PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment at December 31, 2011 and 2010 is summarized as follows (in thousands):

|  | 2011              | 2010              |
|--|-------------------|-------------------|
| Land   | \$ 59,113         | \$ 62,589         |
| Buildings and improvements                     | 172,959           | 187,649           |
| Furniture, fixtures and equipment              | 177,443           | 107,371           |
| Leasehold improvements                         | 139,051           | 123,500           |
| <b>Total property, plant and equipment</b>     | <b>548,566</b>    | <b>481,109</b>    |
| Less accumulated depreciation and amortization | 172,120           | 187,307           |
| <b>Property, plant and equipment, net</b>      | <b>\$ 376,446</b> | <b>\$ 293,802</b> |

The Company capitalized \$4.2 million, \$2.1 million and \$2.2 million of interest expense during 2011, 2010 and 2009, respectively, relating to the construction of our corporate headquarters and equipment for our new distribution facility.





**Table of Contents****(3) ACCRUED EXPENSES**

Accrued expenses at December 31, 2011 and 2010 are summarized as follows (in thousands):

|                                   | 2011      | 2010      |
|-----------------------------------|-----------|-----------|
| Accrued inventory purchases       | \$ 1,518  | \$ 12,164 |
| Accrued payroll and related taxes | 15,399    | 18,201    |
| Accrued interest                  | 77        | 20        |
| Accrued expenses                  | \$ 16,994 | \$ 30,385 |

**(4) LINE OF CREDIT AND SHORT-TERM BORROWINGS**

On June 30, 2009, we entered into a \$250.0 million secured credit agreement, (the Credit Agreement ) with a syndicate of seven banks that replaced the previous \$150 million credit agreement. On November 5, 2009, March 4, 2010 and May 3, 2011, we entered into three successive amendments to the Credit Agreement (collectively, the Amended Credit Agreement ). The Amended Credit Agreement matures in June 2015. The Amended Credit Agreement permits us and certain of our subsidiaries to borrow up to \$250.0 million based upon a borrowing base of eligible accounts receivable and inventory, which amount can be increased to \$300.0 million at our request and upon satisfaction of certain conditions including obtaining the commitment of existing or prospective lenders willing to provide the incremental amount. Borrowings bear interest at our election based on LIBOR or a Base Rate (defined as the greatest of the base LIBOR plus 1.00%, the Federal Funds Rate plus 0.5% or one of the lenders prime rate), in each case, plus an applicable margin based on the average daily principal balance of revolving loans under the credit agreement (1.00%, 1.25% or 1.50% for Base Rate loans and 2.00%, 2.25% or 2.50% for LIBOR loans). We pay a monthly unused line of credit fee of 0.375% or 0.5% per annum, which varies based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Amended Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of \$50.0 million. The Amended Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including a fixed charge coverage ratio that applies when excess availability is less than \$40.0 million. In addition, the Amended Credit Agreement places limits on additional indebtedness that we are permitted to incur as well as other restrictions on certain transactions. We paid syndication and commitment fees of \$6.7 million on this facility, which are being amortized over the life of the facility.

On April 30, 2010, we entered into a construction loan agreement (the Loan Agreement ), by and between HF Logistics-SKX, LLC and Bank of America, N.A. as administrative agent and as lender ( Bank of America or the Administrative Agent ) and Raymond James Bank, FSB. The proceeds from the Loan Agreement have been used to construct our domestic distribution facility in Rancho Belago, California. Borrowings made pursuant to the Loan Agreement may be made up to a maximum limit of \$55.0 million and the loan matures on April 30, 2012, which may be extended for six months if certain conditions are met. We expect to be able to meet all of the conditions necessary to extend this agreement for six months and refinance the loan before October 30, 2012. Borrowings bear interest based on LIBOR. We had \$47.1 million outstanding under this facility, which is included in short-term borrowings on December 31, 2011. We paid commitment fees of \$737,500 on this loan, which are being amortized over the life of the facility.

**Table of Contents****(5) LONG-TERM BORROWINGS**

Long-term debt at December 31, 2011 and 2010 is as follows (in thousands):

|   | 2011      | 2010      |
|---|-----------|-----------|
| Note payable to bank, due in monthly installments of \$531.4 (includes principal and interest), fixed rate interest at 3.54%, secured by property, balloon payment of \$12,635 due December 2015  | \$ 34,259 | \$ 39,325 |
| Note payable to bank, due in monthly installments of \$483.9 (includes principal and interest), fixed rate interest at 3.19%, secured by property, balloon payment of \$11,670 due June 2016      | 34,005    | 0         |
| Note payable to bank, due in monthly installments of \$57.6 (includes principal and interest), fixed rate interest at 7.89%, secured by property, balloon payment of \$6,889 paid in January 2011 | 0         | 6,900     |
| Loan from HF Logistics I, LLC   | 18,297    | 17,358    |
| Capital lease obligations   | 29        | 51        |
| Subtotal  | 86,590    | 63,634    |
| Less current installments   | 10,059    | 11,984    |
| Total long-term debt  | \$ 76,531 | \$ 51,650 |

The aggregate maturities of long-term borrowings at December 31, 2011 are as follows:

|      |           |
|------|-----------|
| 2012 | \$ 10,059 |
| 2013 | 19,522    |
| 2014 | 19,911    |
| 2015 | 23,212    |
| 2016 | 13,886    |
|      | \$ 86,590 |

The Company's long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. The Company is in compliance with its non-financial covenants, including any cross default provisions, and financial covenants of our long-term debt as of December 31, 2011.

On December 29, 2010, we entered into a master loan and security agreement (the "Master Agreement"), by and between us and Banc of America Leasing & Capital, LLC, and an Equipment Security Note (together with the Master Agreement, the "Loan Documents"), by and among us, Banc of America Leasing & Capital, LLC, and Bank of Utah, as agent ("Agent"). We used the proceeds to refinance certain equipment already purchased and to purchase new equipment for use in our Rancho Belago distribution facility. Borrowings made pursuant to the Master Agreement may be in the form of one or more equipment security notes (each a "Note", and, collectively, the "Notes") up to a maximum limit of \$80.0 million and each for a term of 60 months. The Note entered into on the same date as the Master Agreement represents a borrowing of approximately \$39.3 million. Interest will accrue at a fixed rate of 3.54% per annum. On June 30, 2011, we entered into another Note agreement for approximately \$36.3 million. Interest will accrue at a fixed rate of 3.19% per annum. As of December 31, 2011, the total outstanding amount on these notes was \$68.3 million. We paid commitment fees of \$825,000 on this loan, which are being amortized over the five-year life of the facility.

**(6) STOCK COMPENSATION**

(a) Equity Incentive Plans

In January 1998, the Company's Board of Directors adopted the Amended and Restated 1998 Stock Option, Deferred Stock and Restricted Stock Plan for the grant of incentive stock options ( ISOs ), non-qualified stock options and deferred and restricted stock (the Equity Incentive Plan ). In June 2001, the stockholders approved an amendment to the plan to increase the number of shares of Class A Common Stock authorized for issuance under the plan to 8,215,154. In May 2003, stockholders approved an amendment to the plan to increase the number of shares of Class A Common Stock authorized for issuance under the plan to 11,215,154. Stock option awards are generally granted with an exercise price per share equal to the market price of a share of Class A Common Stock on the date of grant. Stock option awards generally become exercisable over a three-year graded vesting period and expire ten years from the date of grant.

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On April 16, 2007, the Company's Board of Directors adopted the 2007 Plan, which became effective upon approval by the Company's stockholders on May 24, 2007. The Company's Board of Directors terminated the Equity Incentive Plan as of May 24, 2007, with no granting of awards being permitted thereafter, although any awards then outstanding under the Equity Incentive Plan remain in force according to the terms of such terminated plan and the applicable award agreements. A total of 7,500,000 shares of Class A Common Stock are reserved for issuance under the 2007 Plan, which provides for grants of ISOs, non-qualified stock options, restricted stock and various other types of equity awards as described in the plan to the employees, consultants and directors of the Company and its subsidiaries. The 2007 Plan is administered by the Compensation Committee of the Company's Board of Directors.

## (b) Valuation Assumptions

There were no stock options granted under the Equity Incentive Plan or the 2007 Plan during 2011, 2010 or 2009. The total intrinsic value of options exercised during 2011, 2010 and 2009 was \$1.2 million, \$20.9 million and \$1.3 million, respectively.

## (c) Stock-Based Payment Awards

Stock options granted pursuant to the 1998 Stock Option, Deferred Stock and Restricted Stock Plan and the 2007 Incentive Award Plan (the Equity Incentive Plans) were as follows:

|                                  | SHARES      | WEIGHTED AVERAGE<br>OPTION<br>EXERCISE PRICE |
|----------------------------------|-------------|--|
| Outstanding at December 31, 2008 | 1,739,721   | \$ 11.79                                     |
| Granted                          | 0           |  |
| Exercised                        | (125,715)   | 9.68   |
| Cancelled                        | (108,312)   | 11.20  |
| Outstanding at December 31, 2009 | 1,505,694   | 12.01  |
| Granted                          | 0           |  |
| Exercised                        | (1,030,516) | 12.53  |
| Cancelled                        | (23,870)    | 4.10   |
| Outstanding at December 31, 2010 | 451,308     | 11.26  |
| Granted                          | 0           |  |
| Exercised                        | (137,197)   | 9.46   |
| Cancelled                        | (107,711)   | 20.55  |
| Outstanding at December 31, 2011 | 206,400     | \$ 7.62                                      |

There was no unrecognized compensation cost related to stock option shares as of December 31, 2011 and 2010, respectively.

A summary of the status and changes of our nonvested shares related to our Equity Incentive Plans as of and for the period ended December 31, 2011 is presented below:

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|                                | SHARES    | WEIGHTED<br>AVERAGE<br>GRANT-DATE FAIR<br>VALUE |
|--------------------------------|-----------|---|
| Nonvested at December 31, 2008 | 217,284   | \$ 16.97  |
| Granted                        | 2,051,500 | 17.90   |
| Vested                         | (108,140) | 16.99   |
| Cancelled                      | (2,000)   | 13.13   |
| Nonvested at December 31, 2009 | 2,158,644 | 17.86   |
| Granted                        | 139,000   | 30.38   |
| Vested                         | (804,315) | 17.96   |
| Cancelled                      | 0         | 0   |
| Nonvested at December 31, 2010 | 1,493,329 | 18.97   |
| Granted                        | 10,000    | 21.00   |
| Vested                         | (735,337) | 18.95   |
| Cancelled                      | (27,499)  | 18.74   |
| Nonvested at December 31, 2011 | 740,493   | \$ 19.02  |

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As of December 31, 2011, a total of 5,116,881 shares remain available for grant as equity awards under the 2007 Plan.

There was \$11.3 million and \$25.1 million of unrecognized compensation cost related to nonvested common shares as of December 31, 2011 and 2010, respectively. That cost is expected to be recognized over a weighted average period of 0.9 years and 1.9 years, respectively. The total fair value of shares vested during the period ended December 31, 2011 and 2010 was \$13.9 million and \$14.4 million, respectively.

**(d) Stock Purchase Plans**

Effective July 1, 1998, the Company's Board of Directors adopted the 1998 Employee Stock Purchase Plan (the 1998 ESPP). The 1998 ESPP provides that a total of 2,781,415 shares of Class A Common Stock are reserved for issuance under the plan. The 1998 ESPP, which is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended, was implemented utilizing six-month offerings with purchases occurring at six-month intervals. The 1998 ESPP administration was overseen by the Board of Directors. Employees were eligible to participate if they are employed by the Company for at least 20 hours per week and more than five months in any calendar year. The 1998 ESPP permitted eligible employees to purchase Class A Common Stock through payroll deductions, which may not exceed 15% of an employee's compensation. The price of Class A Common Stock purchased under the 1998 ESPP was 85% of the lower of the fair market value of the Class A Common Stock at the beginning of each six-month offering period or on the applicable purchase date.

On April 16, 2007, the Company's Board of Directors adopted the 2008 Employee Stock Purchase Plan (the 2008 ESPP), and the Company's stockholders approved the 2008 ESPP on May 24, 2007. The 2008 ESPP became effective on January 1, 2008, and the Company's Board of Directors terminated the 1998 ESPP as of such date, with no additional granting of rights being permitted under the 1998 ESPP. The 2008 ESPP provides that a total of 3,000,000 shares of Class A Common Stock are reserved for issuance under the plan. This number of shares that may be made available for sale is subject to automatic increases on the first day of each fiscal year during the term of the 2008 ESPP as provided in the plan. The 2008 ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended. The terms of the 2008 ESPP, which are substantially similar to those of the 1998 ESPP, permit eligible employees to purchase Class A Common Stock at six-month intervals through payroll deductions, which may not exceed 15% of an employee's compensation. The price of Class A Common Stock purchased under the 2008 ESPP is 85% of the lower of the fair market value of the Class A Common Stock at the beginning of each six-month offering period or on the applicable purchase date. Employees may end their participation in an offering at any time during the offering period. The 2008 ESPP is administered by the Company's Board of Directors.

During 2011, 2010 and 2009; 178,189 shares, 103,430 shares and 189,428 shares were issued under the 2008 ESPP for which the Company received approximately \$2.0 million, \$2.1 million and \$1.6 million, respectively.

**(7) STOCKHOLDERS EQUITY**

The authorized capital stock of the Company consists of 100,000,000 shares of Class A Common Stock, par value \$.001 per share, 60,000,000 shares of Class B Common Stock, par value \$.001 per share, and 10,000,000 shares of preferred stock, \$.001 par value per share.

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

During 2011, 2010 and 2009 certain Class B stockholders converted 13,640 shares, 1,049,005 shares and 422,770 shares, respectively, of Class B Common Stock to Class A Common Stock.

**Table of Contents****(8) INCOME TAXES**

The provisions for income tax expense (benefit) were as follows (in thousands):

|                                     | 2011               | 2010             | 2009             |
|-------------------------------------|--------------------|------------------|------------------|
| <b>Federal:</b>                     |                    |                  |                  |
| Current                             | \$ (54,231)        | \$ 45,304        | \$ 9,227         |
| Deferred                            | (1,361)            | (2,090)          | 5,902            |
| Total federal                       | (55,592)           | 43,214           | 15,129           |
| <b>State:</b>                       |                    |                  |                  |
| Current                             | (346)              | 8,535            | 1,498            |
| Deferred                            | (10,417)           | 473              | 1,268            |
| Total state                         | (10,763)           | 9,008            | 2,766            |
| <b>Foreign:</b>                     |                    |                  |                  |
| Current                             | (1,027)            | 11,529           | 3,088            |
| Deferred                            | 3,915              | (3,553)          | (755)            |
| Total foreign                       | 2,888              | 7,976            | 2,333            |
| <b>Total income taxes (benefit)</b> | <b>\$ (63,467)</b> | <b>\$ 60,198</b> | <b>\$ 20,228</b> |

Income taxes differ from the statutory tax rates as applied to earnings (loss) before income taxes as follows (in thousands):

|   | 2011               | 2010             | 2009             |
|---|--------------------|------------------|------------------|
| Expected income tax expense (benefit)                       | \$ (45,866)        | \$ 68,811        | \$ 24,888        |
| State income tax, net of federal benefit                    | (7,320)            | 6,590            | 2,051            |
| Rate differential on foreign income                         | (11,808)           | (16,398)         | (6,162)          |
| Change in unrecognized tax benefits                         | 2,906              | (160)            | 455              |
| Exempt income   | 0                  | 0                | (207)            |
| Non-deductible expenses                                     | 168                | 569              | 441              |
| Prior year R&D credit claims                                | (6,253)            | 0                | 0                |
| Adjustment to tax benefit - 2008 advanced pricing agreement | 0                  | 0                | (1,952)          |
| Other   | 304                | (197)            | (1,049)          |
| Change in valuation allowance                               | 4,402              | 983              | 1,763            |
| <b>Total provision (benefit) for income taxes</b>           | <b>\$ (63,467)</b> | <b>\$ 60,198</b> | <b>\$ 20,228</b> |

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The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2011 and 2010 are presented below (in thousands):

| <b>DEFERRED TAX ASSETS:</b>                   | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| <b>Deferred tax assets - current:</b>         |             |             |
| Inventory adjustments                         | \$ 8,741    | \$ 4,785    |
| Accrued legal settlement                      | 19,344      | 0           |
| Accrued expenses                              | 13,664      | 8,808       |
| Allowances for bad debts and chargebacks      | 5,867       | 5,492       |
| Total current assets                          | 47,616      | 19,085      |
| <b>Deferred tax assets - long term:</b>       |             |             |
| Depreciation on property, plant and equipment | 0           | 10,321      |
| Loss carryforwards                            | 37,177      | 7,334       |
| Business credit carryforward                  | 5,452       | 0           |
| Stock-based compensation                      | 1,131       | 1,348       |
| Valuation allowance                           | (11,082)    | (6,680)     |
| Total long term assets                        | 32,678      | 12,323      |
| Total deferred tax assets                     | 80,294      | 31,408      |
| <b>Deferred tax liabilities - current:</b>    |             |             |
| Prepaid expenses                              | 8,475       | 7,365       |
| <b>Deferred tax liabilities - long term:</b>  |             |             |
| Depreciation on property, plant and equipment | 36,512      | 0           |
| Total deferred tax liabilities                | 44,987      | 7,365       |
| Net deferred tax assets                       | \$ 35,307   | \$ 24,043   |

Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

Consolidated U.S. income before income taxes was (\$162.0) million, \$127.7 million and \$51.2 million for the years ended December 31, 2011, 2010 and 2009, respectively. The corresponding income before income taxes for non-U.S. based operations was \$31.0 million, \$68.9 million and \$19.9 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The U.S. net operating loss for the year ended December 31, 2011 can be carried back to offset federal taxable income for 2009 and 2010. Such carrybacks are expected to generate tax refunds of approximately \$52.0 million in the first quarter of 2012. The remaining unused net operating loss carryback of \$59.0 million can be carried forward to reduce future taxable income. These net operating losses can be carried forward for 20 years and do not begin to expire until 2032. As of December 31, 2011 no valuation allowance against the related deferred tax asset has been set up for these loss carry-forwards as it is believed the loss carry-forwards will be fully utilized in reducing future taxable income.

As of December 31, 2011 and 2010, the Company had combined foreign operating loss carry-forwards available to reduce future taxable income of approximately \$38.9 million and \$26.3 million, respectively. Some of these net operating losses expire beginning in 2014; however others can be carried forward indefinitely. As of December 31, 2011 and 2010, a valuation allowance against deferred tax assets of \$11.1 million and \$6.7 million, respectively, had been set up for those loss carry-forwards that are not more likely than not to be fully utilized in reducing future taxable income.

As of December 31, 2011, withholding and U.S. taxes have not been provided on approximately \$158.9 million of cumulative undistributed earnings of the Company's non-U.S. subsidiaries because the Company intends to indefinitely reinvest these earnings in its non-U.S. subsidiaries.



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The balance of unrecognized tax benefits included in net prepaid expenses in the consolidated balance sheets increased by \$1.6 million during the year. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

|   | 2011      | 2010     |
|---|-----------|----------|
| Beginning balance                                     | \$ 9,325  | \$ 9,769 |
| Additions for current year tax positions              | 595       | 346      |
| Additions for prior year tax positions                | 2,206     | 325      |
| Reductions for prior year tax positions               | (177)     | 0        |
| Settlement of uncertain tax positions                 | (1,001)   | (315)    |
| Reductions related to lapse of statute of limitations | 0         | (800)    |
| Ending balance  | \$ 10,948 | \$ 9,325 |

If recognized, the entire amount of unrecognized tax benefits would be recorded as a reduction in income tax expense.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of income tax expense and totaled \$0.6 million for the year ended December 31, 2011 and less than \$0.1 million for each of the two years ended December 31, 2010 and 2009, respectively. Accrued interest and penalties were \$1.6 million and \$1.3 million as of December 31, 2011 and 2010, respectively.

The amount of income taxes the Company pays is subject to ongoing audits by taxing jurisdictions around the world. The Company's estimate of the potential outcome of any uncertain tax position is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Company believes that it has adequately provided for these matters. However, the Company's future results may include favorable or unfavorable adjustments to its estimates in the period the audits are resolved, which may impact the Company's effective tax rate. As of December 31, 2011, the Company's tax filings are generally subject to examination in major tax jurisdictions for years ending on or after December 31, 2007.

The Company is currently under examination by the IRS for the 2008 and 2009 tax years. The Company is also under examination by a number of states. During the year ended December 31, 2011, settlements were reached with certain state tax jurisdictions which reduced the balance of 2011 and prior year unrecognized tax benefits by \$0.8 million. It is reasonably possible that certain federal and state examinations could be settled during the next twelve months which would reduce the balance of 2011 and prior year unrecognized tax benefits by \$1.8 million.

**(9) BUSINESS AND CREDIT CONCENTRATIONS**

The Company generates the majority of its 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, which is impacted by the general economy, 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, amounted to \$90.9 million and \$164.4 million before allowances for bad debts and sales returns, and chargebacks at December 31, 2011 and 2010, respectively. Foreign accounts receivable, which generally are collateralized by letters of credit, amounted to \$105.5 million and \$121.4 million before allowance for bad debts, sales returns, and chargebacks at December 31, 2011 and 2010, respectively. International net sales amounted to \$546.0 million, \$484.7 million and \$358.1 million for the years ended December 31, 2011, 2010 and 2009, respectively. The Company's credit losses due to write-offs for the years ended December 31, 2011, 2010 and 2009 were \$7.0 million, \$4.8 million and \$1.2 million, respectively.

Assets located outside the United States consist primarily of cash, accounts receivable, inventory, property, plant and equipment, and other assets. Net assets held outside the United States were \$325.3 million and \$322.0 million at December 31, 2011 and 2010, respectively.

During 2011, 2010 and 2009, no customer accounted for 10.0% or more of net sales. One customer accounted for 12.5% and another accounted for 10.0% of net trade receivables at December 31, 2011. No customer accounted for more than 10% of net trade receivables at December 31, 2010. During 2011, 2010 and 2009, net sales to our five largest customers were approximately 17.8%, 24.9% and 25.1%, respectively.



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The Company's top five manufacturers produced the following for the years ended December 31, 2011, 2010 and 2009, respectively:

|                 | Years Ended December 31, |       |       |
|-----------------|--------------------------|-------|-------|
|                 | 2011                     | 2010  | 2009  |
| Manufacturer #1 | 30.8%                    | 34.7% | 29.7% |
| Manufacturer #2 | 11.5%                    | 13.0% | 12.2% |
| Manufacturer #3 | 7.7%                     | 9.4%  | 11.2% |
| Manufacturer #4 | 6.6%                     | 8.7%  | 10.5% |
| Manufacturer #5 | 5.9%                     | 4.8%  | 5.5%  |
|                 | 62.5%                    | 70.6% | 69.1% |

The majority of the Company's products are produced in China. The Company's operations are subject to the customary risks of doing business abroad, including but not limited to currency fluctuations and revaluations, custom duties and related fees, various import controls and other monetary barriers, restrictions on the transfer of funds, labor unrest and strikes and, in certain parts of the world, political instability. The Company believes it has acted to reduce these risks by diversifying manufacturing among various factories. To date, these business risks have not had a material adverse impact on the Company's operations.

**(10) EMPLOYEE BENEFIT PLAN**

The Company has a 401(k) profit sharing plan covering all employees who are 21 years of age and have completed six months of service. Employees may contribute up to 15.0% of annual compensation. Company contributions to the plan are discretionary and vest over a six year period.

The Company did not make a contribution to the plan for the year ended December 31, 2011. The Company's cash contributions to the plan amounted to \$1.3 million and \$1.6 million during the years ended December 31, 2010 and 2009, respectively.

**(11) COMMITMENTS AND CONTINGENCIES****(a) Leases**

The Company leases facilities under operating lease agreements expiring through March 2029. The Company pays taxes, maintenance and insurance in addition to the lease obligations. The Company also leases certain equipment and automobiles under operating lease agreements expiring at various dates through December 2014. Rent expense for the years ended December 31, 2011, 2010 and 2009 approximated \$85.0 million, \$74.5 million and \$65.9 million, respectively.

The Company also leases certain property, plant and equipment under capital lease agreements requiring monthly installment payments through June 2013.

Minimum lease payments, which takes into account escalation clauses, are recognized on a straight-line basis over the minimum lease term. Subsequent adjustments to our lease payments due to changes in an existing index, usually the consumer price index, are typically included in our calculation of the minimum lease payments when the adjustment is known. Reimbursements for leasehold improvements are recorded as liabilities and are amortized over the lease term. Lease concessions, in our case usually a free rent period, are considered in the calculation of our minimum lease payments for the minimum lease term.

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Future minimum lease payments under noncancellable leases at December 31, 2011 are as follows (in thousands):

|                          | <b>CAPITAL</b> |                             |
|--------------------------|----------------|-----------------------------|
|                          | <b>LEASES</b>  | <b>OPERATING<br/>LEASES</b> |
| Year ending December 31: |                |                             |
| 2012                     | \$ 19          | \$ 99,750                   |
| 2013                     | 10             | 92,559                      |
| 2014                     | 0              | 84,451                      |
| 2015                     | 0              | 79,565                      |
| 2016                     | 0              | 71,986                      |
| Thereafter               | 0              | 375,171                     |
|                          | \$ 29          | \$ 803,482                  |

**(b) Litigation**

The Company recognizes legal expense in connection with loss contingencies as incurred.

The Company's claims and advertising for its toning products including for its Shape-ups are subject to the requirements of, and routinely come under review by regulators including pending inquiries from the U.S. Federal Trade Commission (FTC), states' Attorneys General and government and quasi-government regulators in foreign countries. The Company is currently responding to requests for information regarding its claims and advertising from regulatory and quasi-regulatory agencies in the United States and several other countries and is fully cooperating with those requests. While the Company believes that its claims and advertising with respect to its core toning products are supported by scientific tests, expert opinions and other relevant data, and while the Company has been successful in defending its claims and advertising in several different countries, the Company has discontinued using certain test results and periodically reviews and updates its claims and advertising. The regulatory inquiries may conclude in a variety of outcomes, including the closing of the inquiry with no further regulatory action, settlement of any issues through changes in its claims and advertising, settlement of any issues through payment to the regulatory entity, or litigation.

Based on discussions with the FTC staff, the Company is now aware that the FTC's pending inquiry into its toning products will not end in a closure letter assuring no further regulatory action. In the fourth quarter, the FTC's Director of the Bureau of Consumer Protection referred the matter to the FTC Commissioners for consideration of whether to bring an action against the Company for false and deceptive advertising in connection with its toning products, and the Company met with the individual Commissioners to present evidence and arguments against bringing such an action. Our discussions with the FTC staff are continuing.

Since June 2010, the Company has been a defendant in multiple consumer class actions challenging the Company's claims and advertising for its toning products, including its Shape-ups. On November 15, 2011, the Company received notice that a multistate group of state Attorneys General (SAG) is reviewing substantially the same claims and advertising for toning products as the FTC. Our discussions with the group, which currently is comprised of 44 states and the District of Columbia, are ongoing.

In accordance with U.S. GAAP, the Company records a liability in its 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. In this regard, one of the Company's competitors, which also sells toning products, recently settled a matter with the FTC and related consumer class actions for the payment of \$25 million plus an additional \$4.6 million in attorneys' fees. While the Company believes that the facts relating to the FTC and SAG inquiries into its toning products and its consumer class actions are different from its competitor's, the Company has evaluated this evidence and other related facts and interpretations with its advisors and has concluded that it could be subject to a higher exposure as a result of these proceedings. The Company has reserved \$45 million for costs and potential exposure relating to existing litigation and regulatory matters. Additionally, the Company has recorded an expense of \$5 million in legal and professional fees related to the aforementioned matters, which is included in general and administrative expense in the accompanying consolidated statement of operations for the year ended December 31, 2011. Although we believe our fourth

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quarter reserve of \$45 million and expense of \$5 million appropriately reflect the current estimated range of loss, it is not possible to predict the final outcome of the related proceedings or any other pending legal proceedings and, consequently, the final exposure and costs associated with pending legal proceedings could have a further material adverse impact on our result of operations or financial position.

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## (c) Product and Other Financing

The Company finances production activities in part through the use of interest-bearing open purchase arrangements with certain of its international manufacturers. These arrangements currently bear interest at rates between 0% and 1.5% for 30- to 60- day financing. The amounts outstanding under these arrangements at December 31, 2011 and 2010 were \$71.8 million and \$111.1 million, respectively, which are included in accounts payable in the accompanying consolidated balance sheets. Interest expense incurred by the Company under these arrangements amounted to \$3.2 million in 2011, \$2.1 million in 2010, and \$3.3 million in 2009. The Company has open purchase commitments with our foreign manufacturers of \$275.4 million, which are not included in the accompanying consolidated balance sheets.

**(12) SEGMENT INFORMATION**

We have four reportable segments – domestic wholesale sales, international wholesale sales, retail sales, and e-commerce sales. Management evaluates segment performance based primarily on net sales and gross margins. All other costs and expenses of the Company are analyzed on an aggregate basis, and these costs are not allocated to the Company's segments. Net sales, gross margins and identifiable assets for the domestic wholesale, international wholesale, retail, and the e-commerce segment on a combined basis were as follows (in thousands):

|                         | 2011         | 2010         | 2009         |
|-------------------------|--------------|--------------|--------------|
| Net sales               |              |              |              |
| Domestic wholesale      | \$ 688,194   | \$ 1,131,929 | \$ 763,514   |
| International wholesale | 487,296      | 436,637      | 328,466      |
| Retail                  | 410,458      | 410,695      | 321,829      |
| E-commerce              | 20,068       | 27,607       | 22,631       |
| Total                   | \$ 1,606,016 | \$ 2,006,868 | \$ 1,436,440 |

|                         | 2011       | 2010       | 2009       |
|-------------------------|------------|------------|------------|
| Gross profit            |            |            |            |
| Domestic wholesale      | \$ 186,010 | \$ 460,355 | \$ 292,303 |
| International wholesale | 196,248    | 181,528    | 118,440    |
| Retail                  | 231,835    | 255,894    | 198,243    |
| E-commerce              | 9,655      | 14,129     | 12,024     |
| Total                   | \$ 623,748 | \$ 911,906 | \$ 621,010 |

|                         | 2011         | 2010         |
|-------------------------|--------------|--------------|
| Identifiable assets     |              |              |
| Domestic wholesale      | \$ 844,383   | \$ 891,671   |
| International wholesale | 304,025      | 300,153      |
| Retail                  | 133,081      | 112,774      |
| E-commerce              | 399          | 196          |
| Total                   | \$ 1,281,888 | \$ 1,304,794 |

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|   | 2011              | 2010             | 2009             |
|---|-------------------|------------------|------------------|
| <b>Additions to property, plant and equipment</b> |                   |                  |                  |
| Domestic wholesale                                | \$ 92,496         | \$ 57,375        | \$ 21,112        |
| International wholesale                           | 2,236             | 4,241            | 5,568            |
| Retail  | 27,506            | 20,653           | 8,661            |
| <b>Total</b>                                      | <b>\$ 122,238</b> | <b>\$ 82,269</b> | <b>\$ 35,341</b> |

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## Geographic Information

The following summarizes our operations in different geographic areas for the year indicated:

|                         | 2011                | 2010                | 2009                |
|-------------------------|---------------------|---------------------|---------------------|
| Net Sales (1)           |                     |                     |                     |
| United States           | \$ 1,059,990        | \$ 1,522,187        | \$ 1,078,335        |
| Canada                  | 48,057              | 54,476              | 39,498              |
| Other International (2) | 497,969             | 430,205             | 318,607             |
| <b>Total</b>            | <b>\$ 1,606,016</b> | <b>\$ 2,006,868</b> | <b>\$ 1,436,440</b> |

|                               | 2011              | 2010              |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment |                   |                   |
| United States                 | \$ 358,405        | \$ 276,457        |
| Canada                        | 1,179             | 1,590             |
| Other International (2)       | 16,862            | 15,755            |
| <b>Total</b>                  | <b>\$ 376,446</b> | <b>\$ 293,802</b> |

(1) The Company has subsidiaries in Canada, United Kingdom, Germany, France, Spain, Portugal, Italy, Netherlands, Brazil and Chile that generate net sales within those respective countries and in some cases the neighboring regions. The Company has joint ventures in China, Hong Kong, Malaysia, Singapore and Thailand that generate net sales from those countries. The Company also has a subsidiary in Switzerland that generates net sales from that country in addition to net sales to our distributors located in numerous non-European countries. Net sales are attributable to geographic regions based on the location of the Company subsidiary.

(2) Other international consists of Switzerland, United Kingdom, Germany, Austria, France, Spain, Portugal, Italy, Netherlands, China, Hong Kong, Malaysia, Singapore, Thailand, Brazil, Chile, Vietnam and Japan.

**(13) RELATED PARTY TRANSACTIONS**

The Company paid approximately \$188,000, \$319,000 and \$183,000 during 2011, 2010 and 2009, respectively, to the Manhattan Inn Operating Company, LLC ( MIOC ) for lodging, food and events including the Company's holiday party at the Shade Hotel, which is owned and operated by MIOC. Michael Greenberg, President and a director of the Company, owns a 12% beneficial ownership interest in MIOC, and four other officers, directors and senior vice presidents of the Company own in aggregate an additional 5% beneficial ownership in MIOC. The Company had no outstanding accounts receivable or payable with MIOC or the Shade Hotel at December 31, 2011.

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 and Chief Financial Officer, are also officers and directors of the Foundation. During the years ended December 31, 2011 and 2010, respectively, the Company contributed \$1.3 million and \$0.4 million, respectively, to the Foundation to use for various charitable causes.

The Company had receivables from officers and employees of \$0.3 million and \$0.2 million at December 31, 2011 and 2010, respectively. These amounts primarily relate to travel advances and incidental personal purchases on Company-issued credit cards. These receivables are short-term and are expected to be repaid within a reasonable period of time. We had no other significant transactions with or payables to



officers, directors or significant shareholders of the Company.

**(14) SUBSEQUENT EVENTS**

The Company has evaluated events subsequent to December 31, 2011, to assess the need for potential recognition or disclosure in this filing. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition in the consolidated financial statements.

**Table of Contents****(15) SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

Summarized unaudited financial data are as follows (in thousands):

| 2011                  | MARCH 31   | JUNE 30    | SEPTEMBER 30 | DECEMBER 31 |
|-----------------------|------------|------------|--------------|-------------|
| Net sales             | \$ 476,234 | \$ 434,351 | \$ 412,183   | \$ 283,248  |
| Gross profit          | 192,610    | 143,330    | 175,195      | 112,613     |
| Net earnings (loss) * | 11,808     | (29,916)   | 8,285        | (57,661)    |

Net earnings (loss) per share:

|         |         |           |         |           |
|---------|---------|-----------|---------|-----------|
| Basic   | \$ 0.24 | \$ (0.62) | \$ 0.17 | \$ (1.18) |
| Diluted | 0.24    | (0.62)    | 0.17    | (1.18)    |

| 2010         | MARCH 31   | JUNE 30    | SEPTEMBER 30 | DECEMBER 31 |
|--------------|------------|------------|--------------|-------------|
| Net sales    | \$ 492,764 | \$ 504,859 | \$ 554,626   | \$ 454,619  |
| Gross profit | 237,418    | 237,645    | 252,651      | 184,192     |
| Net earnings | 56,296     | 40,237     | 36,378       | 3,237       |

Net earnings per share:

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 1.20 | \$ 0.85 | \$ 0.76 | \$ 0.07 |
| Diluted | 1.15    | 0.82    | 0.74    | 0.07    |

\* Included in the quarter ended December 31, 2011 is an impairment of property, plant and equipment of \$1.5 million and an impairment of intangible assets of \$1.6 million (see note 1).

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Attached as exhibits to this annual report on Form 10-K 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 maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within required time periods and that such information is accumulated and communicated to allow timely decisions regarding required disclosures. As of the end of

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the period covered by this annual report on Form 10-K, we carried out an evaluation under the supervision and with the participation of our management, including our CEO and CFO, of 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 were effective at the reasonable assurance level as of the end of such period.

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management has concluded that as of December 31, 2011, our internal control over financial reporting is effective.

Our independent registered public accountants, KPMG LLP, audited the consolidated financial statements included in this annual report on Form 10-K and have issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2011, which is set forth below.

**INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error 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 due 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. Projections 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.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no significant changes to our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting during the fourth quarter of 2011. The results of our evaluation are discussed above in Management's Report on Internal Control Over Financial Reporting.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Skechers U.S.A., Inc.:

We have audited the internal control over financial reporting of Skechers U.S.A., Inc. (the Company) as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Skechers U.S.A., Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Skechers U.S.A., Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011, and the related financial statement schedule, and our report dated February 29, 2012, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ KPMG LLP

Los Angeles, California

February 29, 2012

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**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item 10 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2011 fiscal year.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2011 fiscal year.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item 12 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2011 fiscal year.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item 13 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2011 fiscal year.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item 14 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2011 fiscal year.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

1. Financial Statements: See Index to Consolidated Financial Statements and Financial Statement Schedule in Part II, Item 8 on page 43 of this annual report on Form 10-K.
2. Financial Statement Schedule: See Schedule II Valuation and Qualifying Accounts on page 69 of this annual report on Form 10-K.
3. Exhibits: The exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this Form 10-K.

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## SCHEDULE VALUATION AND QUALIFYING ACCOUNTS

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Years Ended December 31, 2011, 2010, and 2009

| DESCRIPTION                              | BALANCE AT<br>BEGINNING OF<br>PERIOD | CHARGED TO<br>COSTS AND<br>EXPENSES | DEDUCTIONS<br>AND<br>WRITE-OFFS | BALANCE<br>AT END<br>OF PERIOD |
|--|--------------------------------------|-------------------------------------|---------------------------------|--------------------------------|
| Year-ended December 31,<br>2009:         |                                      |                                     |                                 |                                |
| Allowance for chargebacks                | \$ 3,914                             | \$ (672)                            | \$ (1,299)                      | \$ 1,943                       |
| Allowance for doubtful accounts          | 4,422                                | 1,863                               | (1,957)                         | 4,328                          |
| Reserve for sales returns and allowances | 6,544                                | 2,058                               | (512)                           | 8,090                          |
| Reserve for shrinkage                    | 165                                  | 950                                 | (915)                           | 200                            |
| Reserve for obsolescence                 | 13,023                               | 0                                   | (9,568)                         | 3,455                          |
| Year-ended December 31,<br>2010:         |                                      |                                     |                                 |                                |
| Allowance for chargebacks                | \$ 1,943                             | \$ 2,993                            | \$ (1,909)                      | \$ 3,027                       |
| Allowance for doubtful<br>accounts       | 4,328                                | 1,782                               | (465)                           | 5,645                          |
| Reserve for sales returns and allowances | 8,090                                | 1,437                               | 1,498                           | 11,025                         |
| Reserve for shrinkage                    | 200                                  | 1,100                               | (1,100)                         | 200                            |
| Reserve for obsolescence                 | 3,455                                | 0                                   | (17)                            | 3,438                          |
| Year-ended December 31,<br>2011:         |                                      |                                     |                                 |                                |
| Allowance for chargebacks                | \$ 3,027                             | \$ 1,463                            | \$ (2,150)                      | \$ 2,340                       |
| Allowance for doubtful accounts          | 5,645                                | 5,560                               | (874)                           | 10,331                         |
| Reserve for sales returns and allowances | 11,025                               | (1,141)                             | (2,132)                         | 7,752                          |
| Reserve for shrinkage                    | 200                                  | 1,100                               | (1,000)                         | 300                            |
| Reserve for obsolescence                 | 3,438                                | 9,971                               | (1,450)                         | 11,959                         |

See accompanying report of independent registered public accounting firm



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**INDEX TO EXHIBITS**

**EXHIBIT**

**NUMBER**

**DESCRIPTION OF EXHIBIT**

|           |  |
|-----------|--|
| 3.1       | Amended and Restated Certificate of Incorporation dated April 29, 1999 (incorporated by reference to exhibit number 3.1 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on May 12, 1999).                     |
| 3.2       | Bylaws dated May 28, 1998 (incorporated by reference to exhibit number 3.2 of the Registrant's Registration Statement on Form S-1 (File No. 333-60065) filed with the Securities and Exchange Commission on July 29, 1998).  |
| 3.2(a)    | Amendment to Bylaws dated as of April 8, 1999 (incorporated by reference to exhibit number 3.2(a) of the Registrant's Form 10-K for the year ended December 31, 2005).   |
| 3.2(b)    | Second Amendment to Bylaws dated as of December 18, 2007 (incorporated by reference to exhibit number 3.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 20, 2007).  |
| 4.1       | Form of Specimen Class A Common Stock Certificate (incorporated by reference to exhibit number 4.1 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on May 12, 1999).  |
| 10.1**    | Amended and Restated 1998 Stock Option, Deferred Stock and Restricted Stock Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Registration Statement on Form S-1 (File No. 333-60065) filed with the Securities and Exchange Commission on July 29, 1998).                      |
| 10.1(a)** | Amendment No. 1 to Amended and Restated 1998 Stock Option, Deferred Stock and Restricted Stock Plan (incorporated by reference to exhibit number 4.4 of the Registrant's Registration Statement on Form S-8 (File No. 333-71114), filed with the Securities and Exchange Commission on October 5, 2001). |
| 10.1(b)** | Amendment No. 2 to Amended and Restated 1998 Stock Option, Deferred Stock and Restricted Stock Plan (incorporated by reference to exhibit number 4.5 of the Registrant's Registration Statement on Form S-8 (File No. 333-135049), filed with the Securities and Exchange Commission on June 15, 2006).  |
| 10.1(c)** | Amendment No. 3 to Amended and Restated 1998 Stock Option, Deferred Stock and Restricted Stock Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on February 23, 2007).  |
| 10.2**    | 2006 Annual Incentive Compensation Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on May 1, 2006).   |
| 10.3**    | 2007 Incentive Award Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 24, 2007).   |
| 10.4**    | Form of Restricted Stock Agreement under 2007 Incentive Award Plan (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-K for the year ended December 31, 2007).  |
| 10.5**    | 2008 Employee Stock Purchase Plan (incorporated by reference to exhibit number 10.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 24, 2007).   |
| 10.5(a)** |  |

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Amendment No. 1 to 2008 Employee Stock Purchase Plan (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q for the quarter ended June 30, 2010).

10.6\*\* Indemnification Agreement dated June 7, 1999 between the Registrant and its directors and executive officers (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-K for the year ended December 31, 1999).

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|           |   |
|-----------|---|
| 10.6(a)** | List of Registrant's directors and executive officers who entered into Indemnification Agreement referenced in Exhibit 10.6 with the Registrant (incorporated by reference to exhibit number 10.6(a) of the Registrant's Form 10-K for the year ended December 31, 2005).   |
| 10.7      | Registration Rights Agreement dated June 9, 1999, between the Registrant, the Greenberg Family Trust and Michael Greenberg (incorporated by reference to exhibit number 10.7 of the Registrant's Form 10-Q for the quarter ended June 30, 1999).  |
| 10.8      | Tax Indemnification Agreement dated June 8, 1999, between the Registrant and certain shareholders (incorporated by reference to exhibit number 10.8 of the Registrant's Form 10-Q for the quarter ended June 30, 1999).   |
| 10.9 +    | Credit Agreement dated June 30, 2009, by and among the Registrant, certain of its subsidiaries that are also borrowers under the Agreement, and certain lenders including Wells Fargo Foothill, LLC, as co-lead arranger and administrative agent, Bank of America, N.A., as syndication agent, and Banc of America Securities LLC, as the other co-lead arranger (incorporated by reference to exhibit number 10.1 of the Registrant's Form 10-Q/A filed with the Securities and Exchange Commission on November 16, 2010).  |
| 10.9(a)   | Amendment Number One to Credit Agreement dated November 5, 2009, by and among the Registrant, certain of its subsidiaries that are also borrowers under the Agreement, and certain lenders including Wells Fargo Foothill, LLC, as co-lead arranger and administrative agent, Bank of America, N.A., as syndication agent, and Banc of America Securities LLC, as the other co-lead arranger (incorporated by reference to exhibit number 10.2 of the Registrant's Form 10-Q/A filed with the Securities and Exchange Commission on November 16, 2010).               |
| 10.9(b)   | Amendment Number Two to Credit Agreement dated March 4, 2010, by and among the Registrant, certain of its subsidiaries that are also borrowers under the Agreement, and certain lenders including Wells Fargo Capital Finance, LLC (formerly known as Wells Fargo Foothill, LLC), as co-lead arranger and administrative agent, Bank of America, N.A., as syndication agent, and Banc of America Securities LLC, as the other co-lead arranger (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-Q for the quarter ended March 31, 2010). |
| 10.9(c)+  | Amendment Number Three to Credit Agreement dated May 3, 2011, by and among the Registrant, certain of its subsidiaries that are also borrowers under the Agreement, and certain lenders including Wells Fargo Capital Finance, LLC (formerly known as Wells Fargo Foothill, LLC), as co-lead arranger and administrative agent, Bank of America, N.A., as syndication agent, and Banc of America Securities LLC, as the other co-lead arranger (incorporated by reference to exhibit number 10.1 of the Registrant's Form 10-Q for the quarter ended March 31, 2011). |
| 10.10     | Schedule 1.1 of Defined Terms to the Credit Agreement dated June 30, 2009, by and among the Registrant, certain of its subsidiaries that are also borrowers under the Agreement, and certain lenders including Wells Fargo Foothill, LLC, Bank of America, N.A., and Banc of America Securities LLC (incorporated by reference to exhibit number 10.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on July 7, 2009).  |
| 10.11     | Amended and Restated Limited Liability Company Agreement dated April 12, 2010 between Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, regarding the ownership and management of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company.  |
| 10.12     | Construction Loan Agreement dated as of April 30, 2010, by and among HF Logistics-SKX T1, LLC, which is a wholly owned subsidiary of a joint venture entered into between HF Logistics I, LLC and a wholly owned subsidiary of the Registrant, Bank of America, N.A., as administrative agent and as a lender, and Raymond James Bank FSB, as a lender.   |
| 10.13     | Master Loan and Security Agreement, dated December 29, 2010, by and between the Registrant and Banc of America Leasing & Capital, LLC (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on January 4, 2011).   |

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| 10.14       | Equipment Security Note, dated December 29, 2010, by and among the Registrant, Banc of America Leasing & Capital, LLC, and Bank of Utah, as agent (incorporated by reference to exhibit number 10.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on January 4, 2011).                              |
| 10.15       | Equipment Security Note, dated June 30, 2011, by and among the Registrant, Banc of America Leasing & Capital, LLC, and Bank of Utah, as agent (incorporated by reference to exhibit number 10.3 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on July 1, 2011).                                     |
| 10.16       | Lease Agreement, dated February 8, 2002, between Skechers International, a subsidiary of the Registrant, and ProLogis Belgium II SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.29 of the Registrant's Form 10-K for the year ended December 31, 2002). |
| 10.17       | Lease Agreement dated September 25, 2007 between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 27, 2007).                       |
| 10.17(a)    | First Amendment to Lease Agreement, dated December 18, 2009, between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-Q for the quarter ended March 31, 2010).                                     |
| 10.17(b)    | Second Amendment to Lease Agreement, dated April 12, 2010, between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q for the quarter ended September 30, 2010).                                   |
| 10.17(c)    | Assignment of Lease Agreement, dated April 12, 2010, between HF Logistics I, LLC and HF Logistics-SKX T1, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q for the quarter ended September 30, 2010).                               |
| 10.17(d)    | Third Amendment to Lease Agreement, dated August 18, 2010, between the Registrant and HF Logistics-SKX T1, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-Q for the quarter ended September 30, 2010).                              |
| 10.18       | Lease Agreement dated May 20, 2008 between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III SPRL, regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-Q for the quarter ended June 30, 2010).            |
| 10.19       | Addendum to Lease Agreement dated May 20, 2008 between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q for the quarter ended June 30, 2010). |
| 21.1        | Subsidiaries of the Registrant.  |
| 23.1        | Consent of Independent Registered Public Accounting Firm.  |
| 31.1        | Certification of the Chief Executive Officer pursuant Securities Exchange Act Rule 13a-14(a).  |
| 31.2        | Certification of the Chief Financial Officer pursuant Securities Exchange Act Rule 13a-14(a).  |
| 32.1***     | Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101.INS**** | XBRL Instance Document.  |

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101.SCH\*\*\*\* XBRL Taxonomy Extension Schema Document.

101.CAL\*\*\*\* XBRL Taxonomy Extension Calculation Linkbase Document.

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| 101.LAB**** | Taxonomy Extension Label Linkbase Document.             |
| 101.PRE**** | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF**** | XBRL Taxonomy Extension Definition Linkbase Document.   |

+ Confidential treatment has been granted by the SEC with respect to certain information in the exhibit pursuant to Rule 24b-2 of the Exchange Act. Such information was omitted from the filing and filed separately with the Secretary of the SEC.

\*\* Management contract or compensatory plan or arrangement required to be filed as an exhibit.

\*\*\* 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.

\*\*\*\* Furnished, not filed, herewith.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Manhattan Beach, State of California on the 29th day of February 2012.

SKECHERS U.S.A., INC.

By: /s/ Robert Greenberg  
Robert Greenberg  
Chairman of the Board and

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <b>SIGNATURE</b>                           | <b>TITLE</b>   | <b>DATE</b>       |
|--|--|-------------------|
| /s/ Robert Greenberg<br>Robert Greenberg   | Chairman of the Board and Chief Executive Officer<br><br>(Principal Executive Officer)   | February 29, 2012 |
| /s/ Michael Greenberg<br>Michael Greenberg | President and Director   | February 29, 2012 |
| /s/ David Weinberg<br>David Weinberg       | Executive Vice President, Chief Operating Officer,<br><br>Chief Financial Officer and Director<br><br>(Principal Financial and Accounting Officer) | February 29, 2012 |
| /s/ Jeffrey Greenberg<br>Jeffrey Greenberg | Director   | February 29, 2012 |
| /s/ Geyer Kosinski<br>Geyer Kosinski       | Director   | February 29, 2012 |
| /s/ Morton D. Erlich<br>Morton D. Erlich   | Director   | February 29, 2012 |
| /s/ Richard Siskind<br>Richard Siskind     | Director   | February 29, 2012 |
| /s/ Thomas Walsh<br>Thomas Walsh           | Director   | February 29, 2012 |
| /s/ Rick Rappaport<br>Rick Rappaport       | Director   | February 29, 2012 |

