

SKECHERS USA INC
Form 10-Q
November 03, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

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 95-4376145
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

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228 Manhattan Beach Blvd.

Manhattan Beach, California 90266
(Address of Principal Executive Office) (Zip Code)

(310) 318-3100

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a small reporting company)

Smaller reporting company

Emerging growth company

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

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

THE NUMBER OF SHARES OF CLASS A COMMON STOCK OUTSTANDING AS OF NOVEMBER 1, 2017:
133,925,344.

THE NUMBER OF SHARES OF CLASS B COMMON STOCK OUTSTANDING AS OF NOVEMBER 1, 2017:
24,545,188.

SKECHERS U.S.A., INC. AND SUBSIDIARIES

FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SKECHERS U.S.A., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par values)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$802,932	\$718,536
Trade accounts receivable, less allowances of \$48,449 in 2017 and \$41,647 in 2016	485,277	326,844
Other receivables	23,184	19,191
Total receivables	508,461	346,035
Inventories	697,659	700,515
Prepaid expenses and other current assets	65,306	62,680
Total current assets	2,074,358	1,827,766
Property, plant and equipment, net	532,482	494,473
Deferred tax assets	30,744	26,043
Other assets, net	55,676	45,388
Total non-current assets	618,902	565,904
TOTAL ASSETS	\$2,693,260	\$2,393,670
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of long-term borrowings	\$1,797	\$1,783
Short-term borrowings	10,629	6,086
Accounts payable	501,332	520,437
Accrued expenses	85,224	93,424
Total current liabilities	598,982	621,730
Long-term borrowings, excluding current installments	71,390	67,159
Deferred tax liabilities	418	412
Other long-term liabilities	22,773	18,855
Total non-current liabilities	94,581	86,426
Total liabilities	693,563	708,156
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued		
and outstanding	—	—
Class A common stock, \$0.001 par value; 500,000 shares authorized;	131	130

131,299 and 130,386 shares issued and outstanding at September 30, 2017

and December 31, 2016, respectively

Class B convertible common stock, \$0.001 par value; 75,000 shares

authorized; 24,545 shares issued and outstanding at

September 30, 2017 and December 31, 2016	24	24
Additional paid-in capital	443,786	419,038
Accumulated other comprehensive loss	(18,022)	(26,604)
Retained earnings	1,456,885	1,211,045
Skechers U.S.A., Inc. equity	1,882,804	1,603,633
Non-controlling interests	116,893	81,881
Total stockholders' equity	1,999,697	1,685,514
TOTAL LIABILITIES AND EQUITY	\$2,693,260	\$2,393,670

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Net sales	\$1,094,829	\$942,417	\$3,193,571	\$2,799,021
Cost of sales	574,842	512,439	1,708,765	1,520,637
Gross profit	519,987	429,978	1,484,806	1,278,384
Royalty income	2,917	2,970	10,368	8,902
	522,904	432,948	1,495,174	1,287,286
Operating expenses:				
Selling	89,559	67,782	263,318	197,627
General and administrative	316,852	261,815	904,631	747,403
	406,411	329,597	1,167,949	945,030
Earnings from operations	116,493	103,351	327,225	342,256
Other income (expense):				
Interest income	780	348	1,574	933
Interest expense	(1,560)	(1,296)	(4,895)	(4,545)
Other, net	2,147	(1,485)	5,507	(1,310)
Total other income (expense)	1,367	(2,433)	2,186	(4,922)
Earnings before income tax expense	117,860	100,918	329,411	337,334
Income tax expense	11,030	24,376	42,546	67,144
Net earnings	106,830	76,542	286,865	270,190
Less: Net earnings attributable to non-controlling interests	14,520	11,432	41,025	33,361
Net earnings attributable to Skechers U.S.A., Inc.	\$92,310	\$65,110	\$245,840	\$236,829
Net earnings per share attributable to Skechers U.S.A., Inc.:				
Basic	\$0.59	\$0.42	\$1.58	\$1.54
Diluted	\$0.59	\$0.42	\$1.57	\$1.53
Weighted average shares used in calculating net earnings per				
share attributable to Skechers U.S.A., Inc.:				
Basic	155,824	154,211	155,502	154,006
Diluted	156,741	155,203	156,276	154,999

See accompanying notes to unaudited condensed consolidated financial statements.

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

(Unaudited)

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net earnings	\$ 106,830	\$ 76,542	\$ 286,865	\$ 270,190
Other comprehensive income, net of tax:				
Gain on foreign currency translation adjustment	4,713	117	11,870	6,453
Comprehensive income	111,543	76,659	298,735	276,643
Less: Comprehensive income attributable to non-controlling interests	15,326	11,224	44,313	32,550
Comprehensive income attributable to Skechers U.S.A., Inc.	\$ 96,217	\$ 65,435	\$ 254,422	\$ 244,093

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net earnings	\$286,865	\$270,190
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	59,576	47,648
Amortization of other assets	10,474	9,554
Provision for bad debts and returns	13,397	12,253
Non-cash share-based compensation	21,737	17,118
Deferred income taxes	(4,694)	789
Loss (gain) on non-current assets	(1,614)	916
Net foreign currency adjustments	(7,431)	988
(Increase) decrease in assets:		
Receivables	(164,379)	(93,710)
Inventories	10,139	100,378
Prepaid expenses and other current assets	(9,819)	(10,696)
Other assets	(7,319)	(4,708)
Decrease in liabilities:		
Accounts payable	(25,118)	(92,581)
Accrued expenses and other long-term liabilities	(6,311)	(15,201)
Net cash provided by operating activities	175,503	242,938
Cash flows from investing activities:		
Capital expenditures	(102,163)	(80,751)
Intangible asset additions	(134)	—
Purchases of investments	(1,890)	(3,485)
Proceeds from sales of investments	284	170
Net cash used in investing activities	(103,903)	(84,066)
Cash flows from financing activities:		
Net proceeds from the issuances of common stock through the employee		
stock purchase plan	3,011	2,928
Payments on long-term debt	(1,336)	(15,210)
Proceeds from long-term debt	5,580	—
Net proceeds from short-term borrowings	4,543	5,026
Excess tax benefits from share-based compensation	—	4,620
Distributions to non-controlling interests of consolidated entity	(9,347)	(7,945)
Contributions from non-controlling interests of consolidated entity	46	5,707
Net cash provided by (used in) financing activities	2,497	(4,874)

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Net increase in cash and cash equivalents	74,097	153,998
Effect of exchange rates on cash and cash equivalents	10,299	3,302
Cash and cash equivalents at beginning of the period	718,536	507,991
Cash and cash equivalents at end of the period	\$ 802,932	\$ 665,291
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$4,754	\$4,168
Income taxes, net	48,305	44,890

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

(Unaudited)

(1) GENERAL

Basis of Presentation

The accompanying condensed consolidated financial statements of Skechers U.S.A., Inc. (the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”), for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S X. Accordingly, they do not include certain notes and financial presentations normally required under U.S. GAAP for complete financial reporting. The interim financial information is unaudited, but reflects all normal adjustments and accruals which are, in the opinion of management, considered necessary to provide a fair presentation for the interim periods presented. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The results of operations for the nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2017.

Inventories

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

In July 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). ASU 2015-11 requires that inventory within the scope of this standard be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments apply to inventory that is measured using first-in, first-out or average cost. Effective January 1, 2017, the Company adopted ASU 2015-11. The adoption of ASU 2015-11 did not have a material impact on the Company’s condensed consolidated financial statements.

Fair Value of Financial Instruments

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

As of August 12, 2015, the Company entered into an interest rate swap agreement concurrent with refinancing its domestic distribution center construction loan (see Note 2). The fair value of the interest rate swap was determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipt was based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with U.S. GAAP, credit valuation adjustments were incorporated to appropriately reflect both the Company's nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. The majority of the inputs used to value the interest rate swap were within Level 2 of the fair value hierarchy. As of September 30, 2017 and December 31, 2016, the interest rate swap was a Level 2 derivative and was classified as other long-term liabilities on the Company's condensed consolidated balance sheets.

Use of Estimates

The preparation of the condensed consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

Revenue Recognition

The Company recognizes revenue 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. Related costs paid to third-party shipping companies are recorded as a cost of sales. The Company recognizes revenue from retail sales at the point of sale. Sales and value added taxes collected from retail customers are excluded from reported revenues. Generally, wholesale customers do not have the right to return goods, the Company periodically decides to accept returns or provide customers with credits. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are provided for when related revenue is recorded.

Royalty income is earned from licensing arrangements. Upon signing a new licensing agreement, the Company receives up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue when earned. 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, the Company receives correspondence from licensees indicating actual sales for the period, which is used to calculate and accrue the related royalties currently receivable based on the terms of the agreement.

Recent Accounting Pronouncements

In October 2016, the FASB issued ASU No. 2016-16, "Accounting for Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"). The standard requires that the income tax impact of intra-entity sales and transfers of property, except for inventory, be recognized when the transfer occurs. The standard will become effective for the Company's annual and interim reporting periods beginning January 1, 2018 and will require any deferred taxes not yet recognized on intra-entity transfers to be recorded to retained earnings under a modified retrospective approach. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-16; however at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers", Accounting Standards Codification 606 ("ASC 606"). This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to

be entitled to in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition," and most industry-specific guidance throughout the Industry Topics of the Codification. For the Company's annual and interim reporting periods the mandatory adoption date of ASC 606 is January 1, 2018, and there will be two methods of adoption allowed, either a full retrospective adoption or a modified retrospective adoption. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 to the first quarter of 2018. In March 2016, April 2016, May 2016, December 2016, and May 2017 the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-12, ASU 2016-20, and ASU 2017-10, respectively, as clarifications to ASU 2014-09. ASU 2016-08 clarifies how to identify the unit of accounting for the principal versus agent evaluation, how to apply the control principle to certain types of arrangements, such as service transactions, and reframed the indicators in the guidance to focus on evidence that an entity is acting as a principal rather than as an agent. ASU 2016-10 clarifies the existing guidance on identifying performance obligations and licensing implementation. ASU 2016-12 adds practical expedients related to the transition for contract modifications and further defines a completed contract, clarifies the objective of the collectability assessment and how revenue is recognized if collectability is not probable, and when non-cash considerations should be measured. ASU 2016-20 corrects or improves guidance in 13 narrow focus aspects of the guidance. ASU 2017-10 clarifies that the grantor in a service

concession arrangement is the operating entity's customer for purposes of revenue recognition. The effective dates for these ASUs are the same as the effective date for ASU No. 2014-09, for the Company's annual and interim periods beginning January 1, 2018. These ASU's also require enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows. The Company will adopt the new revenue standards in the first quarter of 2018. The Company expects to adopt this pronouncement using the modified retrospective method. The Company is still completing the assessment of the impact of these ASUs on its consolidated financial statements; however at the current time the Company does not expect that the adoption of these ASUs will have a material impact on its consolidated financial statements.

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

The Company had \$5.0 million and \$2.0 million of outstanding letters of credit as of September 30, 2017 and December 31, 2016, respectively, and approximately \$10.6 million and \$6.1 million in short-term borrowings as of September 30, 2017 and December 31, 2016, respectively.

Long-term borrowings at September 30, 2017 and December 31, 2016 are as follows (in thousands):

	2017	2016
Note payable to banks, due in monthly installments of \$302.0		
(includes principal and interest), variable-rate interest at		
3.24% per annum, secured by property, balloon payment of		
\$62,843 due August 2020	\$66,968	\$68,059
Note payable to Luen Thai Enterprise, Ltd., balloon payment		
of \$5,580 due January 2021	5,580	—
Note payable to TCF Equipment Finance, Inc., due in monthly		
installments of \$30.5 (includes principal and interest), fixed-		
rate interest at 5.24% per annum, due July 2019	639	883
Subtotal	73,187	68,942
Less current installments	1,797	1,783
Total long-term borrowings	\$71,390	\$67,159

The Company's long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. The Company is in compliance with its non-financial covenants, including any cross-default provisions, and financial covenants of its long-term borrowings as of September 30, 2017.

On June 30, 2015, the Company entered into a \$250.0 million loan and security agreement, subject to increase by up to \$100.0 million, (the "Credit Agreement"), with the following lenders: Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association. The Credit Agreement matures on June 30, 2020. The Credit Agreement replaces the credit agreement dated June 30, 2009, which expired on June 30, 2015. The Credit Agreement permits the Company and certain of its subsidiaries to borrow based on a percentage of eligible accounts receivable plus the sum of (a) the lesser of (i) a percentage of eligible inventory to be sold at wholesale and (ii) a percentage of

net orderly liquidation value of eligible inventory to be sold at wholesale, plus (b) the lesser of (i) a percentage of the value of eligible inventory to be sold at retail and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at retail, plus (c) the lesser of (i) a percentage of the value of eligible in-transit inventory and (ii) a percentage of the net orderly liquidation value of eligible in-transit inventory. Borrowings bear interest at the Company's election based on (a) LIBOR or (b) the greater of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5% and (iii) LIBOR for a 30-day period plus 1.0%, in each case, plus an applicable margin based on the average daily principal balance of revolving loans available under the Credit Agreement. The Company pays a monthly unused line of credit fee of 0.25%, payable on the first day of each month in arrears, which is based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of \$100.0 million. The Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the Company and its subsidiaries to, among other things, incur debt, grant liens, make certain acquisitions, dispose of assets, effect a change of control of the Company, make certain restricted payments including certain dividends and stock redemptions, make certain investments or loans, enter into certain transactions with affiliates and certain prohibited uses of proceeds. The Credit Agreement also requires compliance with a minimum fixed-charge coverage ratio if Availability drops below 10% of the Revolver Commitments (as such terms are defined in the Credit Agreement) until the date when no event of default has existed and Availability has been over 10% for 30 consecutive days. The Company paid closing and arrangement fees of \$1.1 million on this facility which are included in other assets in the condensed consolidated balance sheets, and are being amortized to interest expense over the five-year life of the facility. As of September 30, 2017 and December 31, 2016, there was \$0.1 million outstanding under the Company's credit facilities, classified as

short-term borrowings in the Company's condensed consolidated balance sheets. The remaining balance in short-term borrowings, as of September 30, 2017, is related to the Company's international operations.

On April 30, 2010, HF Logistics-SKX, LLC (the "JV"), through its subsidiary HF-T1, entered into a construction loan agreement with Bank of America, N.A., as administrative agent and as a lender, and Raymond James Bank, FSB, as a lender (collectively, the "Construction Loan Agreement"), pursuant to which the JV obtained a loan of up to \$55.0 million used for construction of the project on certain property (the "Original Loan"). On November 16, 2012, HF-T1 executed a modification to the Construction Loan Agreement (the "Modification"), which added OneWest Bank, FSB as a lender, and increased the borrowings under the Original Loan to \$80.0 million and extended the maturity date of the Original Loan to October 30, 2015. On August 11, 2015, the JV, through HF-T1, entered into an amended and restated loan agreement with Bank of America, N.A., as administrative agent and as a lender, and CIT Bank, N.A. (formerly known as OneWest Bank, FSB) and Raymond James Bank, N.A., as lenders (collectively, the "Amended Loan Agreement"), which amends and restates in its entirety the Construction Loan Agreement and the Modification.

As of the date of the Amended Loan Agreement, the outstanding principal balance of the Original Loan was \$77.3 million. In connection with this refinancing of the Original Loan, the JV, the Company and its joint-venture partner HF Logistics ("HF") agreed that the Company would make an additional capital contribution of \$38.7 million to the JV, through HF-T1, to make a prepayment on the Original Loan based on the Company's 50% equity interest in the JV. The prepayment equaled the Company's 50% share of the outstanding principal balance of the Original Loan. Under the Amended Loan Agreement, the parties agreed that the lenders would loan \$70.0 million to HF-T1 (the "New Loan"). The New Loan was used by the JV, through HF-T1, to (i) refinance all amounts owed on the Original Loan after taking into account the prepayment described above, (ii) pay \$0.9 million in accrued interest, loan fees and other closing costs associated with the New Loan and (iii) make a distribution of \$31.3 million less the amounts described in clause (ii) to HF. Pursuant to the Amended Loan Agreement, the interest rate on the New Loan is the LIBOR Daily Floating Rate (as defined in the Amended Loan Agreement) plus a margin of 2%. The maturity date of the New Loan is August 12, 2020, which HF-T1 has one option to extend by an additional 24 months, or until August 12, 2022, upon payment of a fee and satisfaction of certain customary conditions. On August 11, 2015, HF-T1 and Bank of America, N.A. entered into an ISDA Master Agreement (together with the schedule related thereto, the "Swap Agreement") to govern derivative and/or hedging transactions that HF-T1 concurrently entered into with Bank of America, N.A. Pursuant to the Swap Agreement, on August 14, 2015, HF-T1 entered into a confirmation of swap transactions (the "Interest Rate Swap") with Bank of America, N.A. The Interest Rate Swap has an effective date of August 12, 2015 and a maturity date of August 12, 2022, subject to early termination at the option of HF-T1, commencing on August 1, 2020. The Interest Rate Swap fixes the effective interest rate of the New Loan at 4.08% per annum. Pursuant to the terms of the JV, HF is responsible for the related interest expense payments on the New Loan, and any amounts related to the Swap Agreement. The full amount of interest expense paid related to the New Loan has been included in the Company's consolidated statement of equity within non-controlling interests. The Amended Loan Agreement and the Swap Agreement are subject to customary covenants and events of default. Bank of America, N.A. also acts as a lender and syndication agent under the Credit Agreement dated June 30, 2015.

(3) NON-CONTROLLING INTERESTS

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Company's products primarily throughout Asia or to construct the Company's domestic distribution facility. These joint ventures are variable interest entities ("VIEs") under ASC 810-10-15-14. The Company's determination of the primary beneficiary of a VIE considers all relationships between the Company and the VIE, including management agreements, governance documents and other contractual arrangements. The Company has determined for its VIEs that the Company is the primary beneficiary because it has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (b) the obligation to

absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Accordingly, the Company includes the assets and liabilities and results of operations of these entities in its condensed consolidated financial statements, even though the Company may not hold a majority equity interest. There have been no changes during 2017 in the accounting treatment or characterization of any previously identified VIE. The Company continues to reassess these relationships quarterly. The assets of these joint ventures are restricted in that they are not available for general business use outside the context of such joint ventures. The holders of the liabilities of each joint venture have no recourse to the Company. The Company does not have a variable interest in any unconsolidated VIEs.

The following VIEs are consolidated into the Company's condensed consolidated financial statements and the carrying amounts and classification of assets and liabilities were as follows (in thousands):

	September 30,	
	2017	December 31, 2016
HF Logistics-SKX, LLC		
Current assets	\$ 2,426	\$ 2,006
Non-current assets	104,723	108,668
Total assets	\$ 107,149	\$ 110,674
Current liabilities	\$ 3,055	\$ 2,469
Non-current liabilities	66,819	68,168
Total liabilities	\$ 69,874	\$ 70,637

	September 30,	
	2017	December 31, 2016
Distribution joint ventures ⁽¹⁾		
Current assets	\$ 403,797	\$ 289,227
Non-current assets	83,834	49,229
Total assets	\$ 487,631	\$ 338,456
Current liabilities	\$ 202,178	\$ 132,518
Non-current liabilities	7,925	2,214
Total liabilities	\$ 210,103	\$ 134,732

⁽¹⁾Distribution joint ventures include Skechers Footwear Ltd. (Israel), Skechers China Limited, Skechers Korea Limited, Skechers Southeast Asia Limited, Skechers (Thailand) Limited, Skechers Retail India Private Limited, and Skechers South Asia Private Limited.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net earnings attributable to non-controlling interests	\$ 14,520	\$ 11,432	\$ 41,025	\$ 33,361
Distributions to:				
HF Logistics-SKX, LLC	1,048	1,015	3,091	3,131
Skechers China Limited	—	—	4,710	3,083

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Skechers Southeast Asia Limited	1,347	1,280	1,347	1,280
Skechers Hong Kong Limited	199	451	199	451
Contributions from:				
India distribution joint ventures	—	38	—	2,943
Skechers Footwear Ltd. (Israel)	—	2,764	46	2,764

(4) STOCKHOLDERS' EQUITY

During the three and nine months ended September 30, 2017, no shares of Class B common stock were converted into shares of Class A common stock. During the three months ended September 30, 2016 no shares of Class B common stock were converted into shares of Class A common stock. During the nine months ended September 30, 2016, 1,733,270 shares of Class B common stock were converted into shares of Class A common stock.

The following table reconciles equity attributable to non-controlling interests (in thousands):

	Nine Months Ended	
	September 30,	
	2017	2016
Non-controlling interests, beginning of period	\$81,881	\$48,178
Net earnings	41,025	33,361
Foreign currency translation adjustment	3,288	(812)
Capital contributions	46	5,707
Capital distributions	(9,347)	(7,945)
Non-controlling interests, end of period	\$116,893	\$78,489

(5) EARNINGS PER SHARE

Basic earnings per share represent net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share, in addition to the weighted average determined for basic earnings per share, includes potential dilutive common shares using the treasury stock method.

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Basic earnings per share				
Net earnings attributable to Skechers U.S.A., Inc.	\$92,310	\$65,110	\$245,840	\$236,829
Weighted average common shares outstanding	155,824	154,211	155,502	154,006
Basic earnings per share attributable to				
Skechers U.S.A., Inc.	\$0.59	\$0.42	\$1.58	\$1.54

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Diluted earnings per share				
Net earnings attributable to Skechers U.S.A., Inc.	\$92,310	\$65,110	\$245,840	\$236,829
Weighted average common shares outstanding	155,824	154,211	155,502	154,006
Dilutive effect of nonvested shares	917	992	774	993
Weighted average common shares outstanding	156,741	155,203	156,276	154,999
Diluted earnings per share attributable to				
Skechers U.S.A., Inc.	\$0.59	\$0.42	\$1.57	\$1.53

(6) STOCK COMPENSATION**(a) Incentive Award Plan**

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

On April 17, 2017, the Company's Board of Directors adopted the 2017 Incentive Award Plan (the "2017 Plan"), which became effective upon approval by the Company's stockholders on May 23, 2017. The 2017 Plan replaced and superseded in its entirety the 2007 Plan. A total of 10,000,000 shares of Class A Common Stock are reserved for issuance under the 2017 Plan, which provides for grants of ISOs, non-qualified stock options, restricted stock and various other types of equity awards as described in the plan to the employees, consultants and directors of the Company and its subsidiaries. The 2017 Plan is administered by the Company's Board of Directors with respect to awards to non-employee directors and by the Company's Compensation Committee with respect to other eligible participants.

For stock-based awards, the Company recognized compensation expense based on the grant date fair value. Share-based compensation expense was \$7.5 million and \$6.2 million for the three months ended September 30, 2017 and 2016, respectively. Share-based compensation expense was \$21.7 million and \$17.1 million for the nine months ended September 30, 2017 and 2016, respectively.

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

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2016	3,043,164	\$ 24.57
Granted	415,100	23.14
Vested	(769,874)	21.92
Cancelled	(78,000)	32.62
Nonvested at September 30, 2017	2,610,390	24.88

As of September 30, 2017, there was \$43.6 million of unrecognized compensation cost related to nonvested common shares. The cost is expected to be amortized over a weighted average period of 2.1 years.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. As of January 1, 2017, the calculation of diluted weighted average shares outstanding was changed prospectively to no longer include excess tax benefits as assumed proceeds. This change did not have a material impact on the Company's calculation of diluted earnings per share. Additionally, this ASU requires the recognition of excess tax benefits and deficiencies as income tax benefits or expenses in the income statement rather than to additional paid-in capital, which has been applied on a prospective basis to settlements of share-based payment awards occurring on or after January 1,

2017. The Company adopted ASU 2016-09 effective January 1, 2017. The Company recorded a \$0.2 million and \$1.1 million excess tax benefit in the condensed consolidated statement of earnings for the three and nine months ended September 30, 2017, respectively. ASU 2016-09 also requires that excess tax benefits be presented as operating activities on the statement of cash flows, which the Company has elected to apply on a prospective basis.

(b) Stock Purchase Plan

On April 17, 2017, the Company's Board of Directors adopted the 2018 Employee Stock Purchase Plan (the "2018 ESPP"), which the Company's stockholders approved on May 23, 2017. The 2018 ESPP will replace the Company's current employee stock purchase plan, the Skechers U.S.A., Inc. 2008 Employee Stock Purchase Plan (the "2008 ESPP"), which will expire pursuant to its terms on January 1, 2018. The 2018 Employee Stock Purchase Plan provides eligible employees of the Company and its subsidiaries with the opportunity to purchase shares of the Company's Class A Common Stock at a purchase price equal to 85% of the Class A Common Stock's fair market value on the first trading day or last trading day of each purchase period, whichever is lower. The 2018 ESPP generally provides for two six-month purchase periods every twelve months: June 1 through November 30 and December 1 through May 31, except that the initial purchase period under the 2018 ESPP will have a duration of five months, commencing on January 1, 2018 and ending on May 31, 2018. Eligible employees participating in the 2018 ESPP for a purchase period will be able to invest up to 15% of their compensation through payroll deductions during each purchase period. A total of 5,000,000 shares of Class A Common Stock will be available for sale under the 2018 ESPP.

(7) INCOME TAXES

Income tax expense and the effective tax rate for the three and nine months ended September 30, 2017 and 2016 were as follows (in thousands, except the effective tax rate):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Income tax expense	\$11,030	\$24,376	\$42,546	\$67,144
Effective tax rate	9.4 %	24.2 %	12.9 %	19.9 %

The tax provisions for the three and nine months ended September 30, 2017 and 2016 were computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. The Company estimates its effective annual tax rate for 2017 to be approximately 13%, which is subject to management's quarterly review and revision, as necessary.

The Company's provision for income tax expense and effective income tax rate are significantly impacted by the mix of the Company's domestic and foreign earnings (loss) before income taxes. In the foreign jurisdictions in which the Company has operations, the applicable statutory rates range from 0% to 34%, which is generally significantly lower than the U.S. federal and state combined statutory rate of approximately 39%. For the three and nine months ended September 30, 2017 and 2016, the decrease in rate was due to an increase in the amount of projected foreign earnings relative to the projected domestic earnings. In addition, the Company recorded a \$0.2 million and \$1.1 million excess tax benefit due to implementing ASU 2016-09 during the three and nine months ended September 30, 2017, respectively.

As of September 30, 2017, the Company had approximately \$802.9 million in cash and cash equivalents, of which \$503.1 million, or 62.7%, was held outside the U.S. Of the \$503.1 million held by the Company's foreign subsidiaries, approximately \$54.1 million is available for repatriation to the U.S. without incurring further U.S. income taxes and applicable foreign income and withholding taxes in excess of the amounts accrued in the Company's condensed consolidated financial statements. Under current applicable tax laws, if the Company chooses to repatriate some or all of the funds designated as indefinitely reinvested outside the U.S., the amount repatriated would be subject to U.S.

income taxes and applicable foreign income and withholding taxes. The Company does not expect to repatriate any of the funds presently designated as indefinitely reinvested outside the U.S. As such, the Company did not provide for deferred income taxes on its accumulated undistributed earnings of the Company's foreign subsidiaries.

(8) BUSINESS AND CREDIT CONCENTRATIONS

The Company generates sales in the United States; however, several of its products are sold into various foreign countries, which subjects the Company to the risks of doing business abroad. In addition, the Company operates in the footwear industry, and its business depends on the general economic environment and levels of consumer spending. Changes in the marketplace may significantly affect management's estimates and the Company's performance. Management performs regular evaluations concerning the ability of customers to satisfy their obligations and provides for estimated doubtful accounts. Domestic accounts receivable, which generally do not require collateral from customers, were \$220.1 million and \$169.4 million before allowances for bad debts, sales returns and chargebacks at September 30, 2017 and December 31, 2016, respectively. Foreign accounts receivable, which in some cases are collateralized by letters of credit, were \$313.7 million and \$199.1 million before allowance for bad debts, sales returns and chargebacks at September 30, 2017 and December 31, 2016, respectively. The Company's credit losses attributable to write-offs for

the three months ended September 30, 2017 and 2016 were \$5.7 million and \$1.3 million, respectively. The Company's credit losses attributable to write-offs for the nine months ended September 30, 2017 and 2016 were \$7.9 million and \$5.2 million, respectively.

Assets located outside the U.S. consist primarily of cash, accounts receivable, inventory, property, plant and equipment, and other assets. Net assets held outside the United States were \$1.360 billion and \$1.060 billion at September 30, 2017 and December 31, 2016, respectively.

The Company's net sales to its five largest customers accounted for approximately 11.4% and 10.3% of total net sales for the three months ended September 30, 2017 and 2016, respectively. The Company's net sales to its five largest customers accounted for approximately 12.5% and 11.7% of total net sales for the nine months ended September 30, 2017 and 2016, respectively. No customer accounted for more than 10.0% of the Company's net sales during the three and nine months ended September 30, 2017 and 2016. No customer accounted for more than 10.0% of trade receivables at September 30, 2017 or December 31, 2016.

The Company's top five manufacturers produced the following, as a percentage of total production, for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Manufacturer #1	17.0%	19.0%	19.8%	23.8%
Manufacturer #2	10.4%	9.5 %	10.8%	10.0%
Manufacturer #3	9.8 %	8.3 %	9.0 %	9.5 %
Manufacturer #4	5.6 %	4.2 %	5.9 %	5.0 %
Manufacturer #5	5.1 %	4.0 %	4.3 %	3.9 %
	47.9%	45.0%	49.8%	52.2%

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

(9) SEGMENT AND GEOGRAPHIC REPORTING

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net sales:				
Domestic wholesale	\$294,127	\$290,030	\$993,664	\$970,798
International wholesale	475,177	377,988	1,323,688	1,101,455
Retail	325,525	274,399	876,219	726,768
Total	\$1,094,829	\$942,417	\$3,193,571	\$2,799,021

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Gross profit:				
Domestic wholesale	\$110,693	\$108,155	\$376,502	\$373,326
International wholesale	219,260	164,676	594,898	479,983
Retail	190,034	157,147	513,406	425,075
Total	\$519,987	\$429,978	\$1,484,806	\$1,278,384

	September 30,			
	2017		December 31, 2016	
Identifiable assets:				
Domestic wholesale	\$ 1,129,318		\$ 1,161,719	
International wholesale	1,221,755		954,874	
Retail	342,187		277,077	
Total	\$2,693,260		\$2,393,670	

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Additions to property, plant and equipment:				
Domestic wholesale	\$5,418	\$2,800	\$8,699	\$14,033
International wholesale	14,461	10,904	45,884	32,578
Retail	5,782	12,013	47,580	34,140
Total	\$25,661	\$25,717	\$102,163	\$80,751

Geographic Information:

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net Sales ⁽¹⁾:				
United States	\$514,235	\$491,123	\$1,595,078	\$1,513,261
Canada	46,979	39,306	133,362	110,807
Other international ⁽²⁾	533,615	411,988	1,465,131	1,174,953
Total	\$1,094,829	\$942,417	\$3,193,571	\$2,799,021

	September 30,			
	2017		December 31, 2016	
Property, plant and equipment, net:				
United States	\$ 378,272		\$ 374,459	

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Canada	10,472	10,410
Other international ⁽²⁾	143,738	109,604
Total	\$ 532,482	\$ 494,473

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

⁽²⁾Other international includes Asia, Central America, Europe, the Middle East, North America (excluding U.S. and Canada) and South America.

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

(10) RELATED PARTY TRANSACTIONS

On July 29, 2010, the Company formed the Skechers Foundation (the “Foundation”), which is a 501(c)(3) non-profit entity that does not have any shareholders or members. The Foundation is not a subsidiary of, and is not otherwise affiliated with the Company, and the Company does not have a financial interest in the Foundation. However, two officers and directors of the Company, Michael Greenberg, the Company’s President, and David Weinberg, the Company’s Chief Operating Officer and Chief Financial Officer, are also officers and directors of the Foundation. During the three months ended September 30, 2017 and 2016, the Company made contributions to the Foundation of \$250,000 in each period. During the nine months ended September 30, 2017 and 2016, the Company made contributions of \$750,000 to the Foundation in each period.

(11) LITIGATION

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

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 the Company, and that the Company failed to provide adequate warnings of alleged risks associated with Shape-ups. In total, the Company is named as a defendant in 16 currently active, pending active cases (some on behalf of multiple plaintiffs) filed in various courts that assert further varying injuries but employ similar legal theories and assert similar claims to the first case, as well as claims for breach of express and implied warranties, loss of consortium, and fraud. Although there are some variations in the relief sought, the plaintiffs generally seek compensatory and/or economic damages, exemplary and/or punitive damages, and attorneys’ fees and costs.

On December 19, 2011, the Judicial Panel on Multidistrict Litigation issued an order establishing a multidistrict litigation (“MDL”) 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. Since 2011, a total of 1,235 personal injury cases have been filed in or transferred to the MDL proceeding. The Company has resolved 1,754 personal injury claims in the MDL proceedings, comprised of 1,152 that were filed as formal actions and 602 that were submitted by plaintiff fact sheets. The Company has also settled another 26 claims in principle—9 filed cases and 17 claims submitted by plaintiff fact sheets—either directly or pursuant to a global settlement program that has been approved by the claimants’ attorneys (described in greater detail below). Further, 71 cases in the MDL proceeding have been dismissed either voluntarily or on motions by the Company and 38 unfiled claims submitted by plaintiff fact sheet have been abandoned. Between the consummated settlements and cases subject to the settlement program, all but 3 personal injury cases pending in the MDL have been or are expected to be resolved. Discovery in the three remaining, unsettled cases is continuing. No trial dates have been set. All other MDL actions are stayed.

Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group also have been named as defendants in a total of 72 personal injury actions filed in various Superior Courts of the State of California that were brought on behalf of 920 individual plaintiffs (360 of whom also submitted MDL court-approved questionnaires for mediation purposes in the MDL proceeding). Of those cases, 68 were originally filed in the Superior Court for the County of Los Angeles (the “LASC cases”). On August 20, 2014, the Judicial Council of California granted a petition by the Company to coordinate all personal injury actions filed in California that relate to Shape-ups with the LASC cases (collectively, the “LASC Coordinated Cases”). On October 6, 2014, three cases that had been pending in other counties were transferred to and coordinated with the LASC Coordinated Cases. On April 17, 2015, an additional case was transferred to and coordinated with the LASC Coordinated Cases. Fifty-seven actions brought on behalf of a total of 647 plaintiffs have been settled and fully dismissed. Eleven actions have been partially dismissed, with the claims of 219 plaintiffs in those actions having been fully resolved and dismissed. The claims of one other plaintiff from these partially settled multi-plaintiff lawsuits have been settled in principle pursuant to a global settlement program that has

been approved by the plaintiffs' attorneys (described in greater detail below). The claims of 5 plaintiffs from a pending multi-plaintiff action and the claims of another plaintiff in a single-plaintiff action have been settled in principle and should be dismissed in the short term. One single-plaintiff lawsuit and the claims of 28 additional plaintiffs in multi-plaintiff lawsuits have been dismissed entirely, either voluntarily or on motion by the Company. The claims of 21 additional persons have been dismissed in part, either voluntarily or on motions by the Company. Thus, taking into account both consummated settlements and cases subject to the settlement program, only 13 lawsuits on behalf of a total of 18 plaintiffs are expected to remain in the LASC Coordinated Cases. Discovery is continuing in those remaining cases. No trial dates have been set.

In other state courts, a total of 12 personal injury actions (some on behalf of numerous plaintiffs) have been filed that have not been removed to federal court and transferred to the MDL. Eleven of those actions have been resolved and dismissed, and the remaining one has now been settled in principal and should be dismissed in the short term.

With respect to the global settlement programs referenced above, the personal injury cases in the MDL and LASC Coordinated Cases and in other state courts were largely solicited and handled by the same plaintiffs law firms. Accordingly, mediations to discuss potential resolution of the various lawsuits brought by these firms were held on May 18, June 18, and July 24, 2015. At the conclusion of those mediations, the parties reached an agreement in principle on a global settlement program that is expected to resolve all or substantially all of the claims by persons represented by those firms. A master settlement agreement was executed as of March 24, 2016 and the parties are in the process of completing individual settlements. To the extent that the settlements with individual claimants are not finalized or otherwise consummated such that the litigation proceeds, it is too early to predict the outcome of any case, whether adverse results in any single case or in the aggregate would have a material adverse impact on our operations or financial position, and whether insurance coverage will be adequate to cover any losses. The settlements have been reached for business purposes in order to end the distraction of litigation, and the Company continues to believe it has meritorious defenses and intends to defend any remaining cases vigorously. In addition, it is too early to predict whether there will be future personal injury cases filed which are not covered by the global settlement program, whether adverse results in any single case or in the aggregate would have a material adverse impact on the Company's operations or financial position, and whether insurance coverage will be available and/or adequate to cover any losses.

In accordance with U.S. GAAP, the Company records a liability in its condensed consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings are inherently difficult to predict, particularly when the matters are in the procedural stages or with unspecified or indeterminate claims for damages, potential penalties, or fines. Accordingly, the Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the condensed consolidated financial statements as of September 30, 2017, nor is it possible to estimate what litigation-related costs will be in the future; however, the Company believes that the likelihood that claims related to litigation would result in a material loss to the Company, either individually or in the aggregate, is remote.

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and Notes thereto in Item 1 of this report and our annual report on Form 10-K for the year ended December 31, 2016.

We intend for this discussion to provide the reader with information that will assist in understanding our condensed consolidated financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our condensed consolidated financial statements. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect the financial condition and results of operations of our Company as a whole.

This quarterly report on Form 10-Q may contain forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which can be identified by the use of forward-looking language such as "intend," "may," "will," "believe," "expect," "anticipate" or other comparable terms. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected in forward-looking statements, and reported results shall not be considered an indication of our future performance. Factors that might cause or contribute to such differences include:

- global economic, political and market conditions including the difficult consumer retail market in the United States and the uncertainty of the European and Asian 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 and Vietnam, which could be adversely affected by various economic, political or trade conditions, or a natural disaster in China or Vietnam;
- our ability to predict our revenues, which have varied significantly in the past and can be expected to fluctuate in the future due to a number of reasons, many of which are beyond our control;
- sales levels during the spring, back-to-school and holiday selling seasons; and
- other factors referenced or incorporated by reference in our annual report on Form 10-K for the year ended December 31, 2016 under the captions "Item 1A: Risk Factors" and "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations."

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely impact our business, financial condition and results of operations. Moreover, we operate in a very competitive and rapidly changing environment. 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 quarterly report, as a prediction of actual results. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document, except as otherwise required by reporting requirements of applicable federal and states securities laws.

FINANCIAL OVERVIEW

Our net sales for the three months ended September 30, 2017 were \$1.095 billion, an increase of \$152.4 million, or 16.2%, as compared to net sales of \$942.4 million for the three months ended September 30, 2016, which was attributable to increased sales across all of our business segments. Gross margins increased to 47.5% for the three months ended September 30, 2017 from 45.6% for the same period in the prior year. Net earnings attributable to Skechers U.S.A., Inc. were \$92.3 million for the three months ended September 30, 2017, an increase of \$27.2 million, or 41.8%, compared to net earnings of \$65.1 million in the prior-year period. Diluted net earnings per share attributable to Skechers U.S.A., Inc. for the three months ended September 30, 2017 were \$0.59, which reflected a 40.5% increase from the \$0.42 diluted earnings per share reported in the same prior-year period. The increase in net

earnings and diluted net earnings per share attributable to Skechers U.S.A., Inc. for the three months ended September 30, 2017 was due to increased net sales and gross margins and a lower effective tax rate which were partially offset by increased selling expenses of \$21.8 million and increased general and administrative expenses of \$55.1 million. The results of operations for the three months ended September 30, 2017 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2017.

We have three reportable segments – domestic wholesale sales, international wholesale sales, and retail sales, which includes e-commerce sales. We evaluate segment performance based primarily on net sales and gross margins.

Revenue by segment as a percentage of net sales was as follows:

	Three Months Ended	
	September 30, 2017	September 30, 2016
Percentage of revenues by segment:		
Domestic wholesale	26.9 %	30.8 %
International wholesale	43.4 %	40.1 %
Retail	29.7 %	29.1 %
Total	100.0 %	100.0 %

As of September 30, 2017, we owned and operated 623 stores, which included 436 domestic retail stores and 187 international retail stores. We have established our presence in what we believe to be most of the major domestic retail markets. During the first nine months of 2017, we opened five domestic concept stores, five domestic outlet stores, 18 domestic warehouse stores, 13 international concept stores, 13 international outlet stores, and four international warehouse stores. In addition, we closed five domestic concept stores. We review all of our stores for impairment annually, or more frequently if events occur that may be an indicator of impairment, and we carefully review our under-performing stores and consider the potential for non-renewal of leases upon completion of the current term of the applicable lease.

During the remainder of 2017, we intend to focus on: (i) continuing to develop new lifestyle and performance product at affordable prices to increase product count for all customers, (ii) continuing to manage our inventory and expenses to be in line with expected sales levels, (iii) growing our international business, and (iv) strategically expanding our retail distribution channel by opening another 12 to 15 Company-owned retail stores during the remainder of the year.

RESULTS OF OPERATIONS

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
Net sales	\$1,094,829	100.0 %	\$942,417	100.0 %	\$3,193,571	100.0 %	\$2,799,021	100.0 %
Cost of sales	574,842	52.5	512,439	54.4	1,708,765	53.5	1,520,637	54.3
Gross profit	519,987	47.5	429,978	45.6	1,484,806	46.5	1,278,384	45.7
Royalty income	2,917	0.3	2,970	0.3	10,368	0.3	8,902	0.3
	522,904	47.8	432,948	45.9	1,495,174	46.8	1,287,286	46.0
Operating expenses:								
Selling	89,559	8.2	67,782	7.2	263,318	8.2	197,627	7.1
General and administrative	316,852	28.9	261,815	27.8	904,631	28.4	747,403	26.7
	406,411	37.1	329,597	35.0	1,167,949	36.6	945,030	33.8
Earnings from operations	116,493	10.7	103,351	10.9	327,225	10.2	342,256	12.2
Interest income	780	0.1	348	—	1,574	—	933	—
Interest expense	(1,560)	(0.1)	(1,296)	(0.1)	(4,895)	(0.1)	(4,545)	(0.1)
Other, net	2,147	0.1	(1,485)	(0.1)	5,507	0.2	(1,310)	—
Earnings before income tax expense	117,860	10.8	100,918	10.7	329,411	10.3	337,334	12.1
Income tax expense	11,030	1.0	24,376	2.6	42,546	1.3	67,144	2.4
Net earnings	106,830	9.8	76,542	8.1	286,865	9.0	270,190	9.7
Less: Net earnings attributable to								
non-controlling interests	14,520	1.4	11,432	1.2	41,025	1.3	33,361	1.2
Net earnings attributable to								
Skechers U.S.A., Inc.	\$92,310	8.4 %	\$65,110	6.9 %	\$245,840	7.7 %	\$236,829	8.5 %

THREE MONTHS ENDED September 30, 2017 COMPARED TO THREE MONTHS ENDED September 30, 2016

Net sales

Net sales for the three months ended September 30, 2017 were \$1.095 billion, an increase of \$152.4 million, or 16.2%, as compared to net sales of \$942.4 million for the three months ended September 30, 2016. The increase in net sales came from all our business segments with the largest increases attributable to our international wholesale and global retail businesses from our Women's Sport, Men's Sport and Kids' divisions.

Our domestic wholesale net sales increased \$4.1 million, or 1.4%, to \$294.1 million for the three months ended September 30, 2017 from \$290.0 million for the three months ended September 30, 2016. The increase in the domestic wholesale segment's net sales was primarily the result of a 2.7% unit sales volume increase to 12.6 million pairs for the three months ended September 30, 2017 from 12.3 million pairs for the same period in 2016. The increase in our domestic wholesale segment was primarily attributable to increased sales in our Men's Sport, Kids', Skecher Street and You by Skechers divisions. The average selling price per pair within the domestic wholesale decreased to \$23.27 per pair for the three months ended September 30, 2017 compared to \$23.58 per pair for the same period last year, which was primarily attributable to a product sales mix with lower average selling prices.

Our international wholesale segment sales increased \$97.2 million, or 25.7%, to \$475.2 million for the three months ended September 30, 2017 compared to sales of \$378.0 million for the three months ended September 30, 2016. Our international wholesale sales consist of direct sales – those we make to department stores and specialty retailers – and sales to our distributors, who in turn sell to retailers in various international regions where we do not sell directly. Direct subsidiary sales increased \$92.8 million, or 31.4%, to \$388.5 million for the three months ended September 30, 2017 compared to net sales of \$295.7 million for the three months ended September 30, 2016. The largest sales increases during the quarter came from our European subsidiaries and our joint ventures in China and South Korea, primarily due to increased sales of product from our Women's Sport, Men's Sport and Kids' divisions. Our distributor sales increased \$4.4 million to \$86.7 million for the three months ended September 30, 2017, a 5.3% increase from sales of \$82.3 million for the three months ended September 30, 2016. The increase was primarily due to increased sales to our distributors in Indonesia and Ukraine.

Our retail segment sales increased \$51.1 million to \$325.5 million for the three months ended September 30, 2017, an 18.6% increase over sales of \$274.4 million for the three months ended September 30, 2016. The increase in retail sales was primarily attributable to operating an additional net 67 stores and increased comparable store sales of 4.4% resulting from increased sales across several key divisions, including Women's and Men's Sport, Men's USA and Kids' divisions. During the third quarter of 2017, we opened one domestic outlet store, four domestic warehouse stores, four international concept stores, and four international outlet stores. In addition, we closed four domestic concept stores. For the three months ended September 30, 2017, our domestic retail sales increased 9.5% compared to the same period in 2016, which was primarily attributable to positive comparable domestic store sales of 3.1% and a net increase of 30 domestic stores. Our international retail store sales increased 43.8% compared to the same period in 2016, which was primarily attributable to positive comparable international store sales of 8.4% and a net increase of 37 international stores compared to the prior period.

Gross profit

Gross profit for the three months ended September 30, 2017 increased \$90.0 million, or 20.9%, to \$520.0 million as compared to \$430.0 million for the three months ended September 30, 2016. Gross profit as a percentage of net sales, or gross margins, increased to 47.5% for three-month period ended September 30, 2017 from 45.6% for the same period in the prior year, due to higher gross margins from all our segments. Our domestic wholesale segment gross profit increased \$2.5 million to \$110.7 million for the three months ended September 30, 2017 as compared to \$108.2 million for the three months ended September 30, 2016, primarily due to an increase in pairs sold which was offset by lower average selling prices. Domestic wholesale margins increased to 37.6% for the three months ended September 30, 2017 from 37.3% for the three months ended September 30, 2016. The increase in domestic wholesale gross margins was primarily due to a sales mix of newer products with higher average margins.

Gross profit for our international wholesale segment increased \$54.6 million, or 33.1%, to \$219.3 million for the three months ended September 30, 2017 as compared to \$164.7 million for the three months ended September 30, 2016. International wholesale gross margins were 46.1% for the three months ended September 30, 2017 compared to 43.6% for the three months ended September 30, 2016. Gross margins for our direct subsidiary sales increased to 50.6% for the three months ended September 30, 2017 compared to 48.6% for the three months ended September 30, 2016. The increase in international wholesale gross margins was attributable to a product sales mix with higher margin products and positive foreign currency translations. Gross margins for our distributor sales were 26.3% for the three months ended September 30, 2017 compared to 25.5% for the three months ended September 30, 2016, which was due to a product sales mix with higher average margins.

Gross profit for our retail segment increased \$32.9 million, or 20.9%, to \$190.0 million for the three months ended September 30, 2017 as compared to \$157.1 million for the three months ended September 30, 2016. Gross margins for all our company-owned domestic and international stores and our e-commerce business were 58.4% for the three months ended September 30, 2017 as compared to 57.3% for the three months ended September 30, 2016. Gross margins for our domestic stores, which include e-commerce, were 60.6% and 59.8% for the three months ended September 30, 2017 and 2016, respectively. The increase in gross margins in our domestic retail stores was attributable to a product sales mix with higher average margins. Gross margins for our international stores were 53.8% for the three months ended September 30, 2017 as compared to 50.5% for the three months ended September 30, 2016. The increase in international retail gross margins was attributable to a product sales mix with higher average margins and positive foreign currency translations.

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

report higher gross margins than some of our competitors in part for this reason.

Selling expenses

Selling expenses increased by \$21.8 million, or 32.1%, to \$89.6 million for the three months ended September 30, 2017 from \$67.8 million for the three months ended September 30, 2016. As a percentage of net sales, selling expenses were 8.2% and 7.2% for the three months ended September 30, 2017 and 2016, respectively. The increase was primarily due to increased international wholesale advertising expenses of \$18.3 million and an additional \$3.5 million in selling commissions from our joint venture in South Korea.

Selling expenses consist primarily of the following: sales representative sample costs, sales commissions, trade shows, advertising and promotional costs, which may include television, print ads, ad production costs and point-of-purchase (POP) costs.

General and administrative expenses

General and administrative expenses increased by \$55.1 million, or 21.0%, to \$316.9 million for the three months ended September 30, 2017 from \$261.8 million for the three months ended September 30, 2016. As a percentage of sales, general and administrative expenses were 28.9% and 27.8% for the three months ended September 30, 2017 and 2016, respectively. The \$55.1 million increase in general and administrative expenses was primarily attributable to approximately \$27.2 million related to supporting our international wholesale operations due to increased sales volumes and expansion into newer markets, and \$8.0 million and \$10.1 million of additional operating expenses attributable to opening and operating 37 new international and 30 new domestic retail stores, respectively, since September 30, 2016. In addition, the expenses related to our distribution network, including purchasing, receiving, inspecting, allocating, warehousing and packaging of our products, increased \$10.4 million to \$59.4 million for the three months ended September 30, 2017 as compared to \$49.0 million for the same period in the prior year. The increase in warehousing costs was primarily due to increased sales volumes worldwide.

General and administrative expenses consist primarily of the following: salaries, wages, related taxes and various overhead costs associated with our corporate staff, stock-based compensation, domestic and international retail operations, non-selling related costs of our international operations, costs associated with our distribution centers, professional fees related to legal, consulting and accounting, insurance, depreciation and amortization, and expenses related to our distribution network, which includes the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging our products. These general and administrative expenses and are not allocated to segments.

Other income (expense)

Interest income was \$0.8 million and \$0.3 million for the three months ended September 30, 2017 and 2016, respectively. Interest expense increased by \$0.3 million to \$1.6 million for the three months ended September 30, 2017 compared to \$1.3 million for the same period in 2016. Interest expense was incurred primarily on amounts owed to our foreign manufacturers and for loans related to our international joint ventures. Other income increased \$3.6 million to \$2.1 million for the three months ended September 30, 2017 as compared to other expense of \$1.5 million for the same period in 2016. The increase in other income was primarily attributable to foreign currency exchange gain of \$1.7 million for the three months ended September 30, 2017, as compared to a foreign currency exchange loss of \$1.1 million for the three months ended September 30, 2016. This increased foreign currency exchange gain was primarily attributable to the impact of a weaker U.S. dollar on our intercompany investments in our foreign subsidiaries.

Income taxes

Income tax expense and the effective tax rate for the three months ended September 30, 2017 and 2016 were as follows (in thousands, except the effective tax rate):

	Three Months Ended			
	September 30, 2017		2016	
Income tax expense	\$ 11,030		\$ 24,376	
Effective tax rate	9.4	%	24.2	%

The tax provisions for the three months ended September 30, 2017 and 2016 were computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. We estimate our effective annual tax rate for 2017 to be approximately 13%, which is subject to management's quarterly review and revision, as necessary.

Our provision for income tax expense and effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (loss) before income taxes. In the foreign jurisdictions in which we have operations, the applicable statutory rates range from 0% to 34%, which are generally significantly lower than the U.S. federal and state combined statutory rate of approximately 39%. For the three months ended September 30, 2017, the decrease in the effective tax rate was primarily due to an increase in the amount of projected foreign earnings relative to projected domestic earnings as compared to the same period in the prior year, as well as a \$0.2 million excess tax benefit recorded due to implementing ASU 2016-09.

As of September 30, 2017, we had approximately \$802.9 million in cash and cash equivalents, of which \$503.1 million, or 62.7%, was held outside the U.S. Of the \$503.1 million held by our foreign subsidiaries, approximately \$54.1 million is available for repatriation to the U.S. without incurring further U.S. income taxes and applicable foreign income and withholding taxes in excess of the amounts accrued in our condensed consolidated financial statements. We do not expect to repatriate any of the funds presently designated as indefinitely reinvested outside the U.S. Under current applicable tax laws, if we choose to repatriate some or all of the funds designated as indefinitely reinvested outside the U.S., the amount repatriated would be subject to U.S. income taxes and applicable foreign income and withholding taxes. As such, we did not provide for deferred income taxes on accumulated undistributed earnings of our foreign subsidiaries.

Non-controlling interests in net income and loss of consolidated subsidiaries

Net earnings attributable to non-controlling interests for the three months ended September 30, 2017 increased \$3.1 million to \$14.5 million as compared to \$11.4 million for the same period in 2016 primarily attributable to increased profitability by our joint ventures. Non-controlling interests represents the share of net earnings that is attributable to our joint venture partners.

NINE MONTHS ENDED September 30, 2017 COMPARED TO NINE MONTHS ENDED September 30, 2016

Net sales

Net sales for the nine months ended September 30, 2017 were \$3.194 billion, an increase of \$394.6 million, or 14.1%, as compared to net sales of \$2.799 billion for the nine months ended September 30, 2016. The increase in net sales came from all our business segments with the largest increases attributable to our international wholesale and global retail businesses from our Women's and Men's Sport, Women's USA, Men's Go and Kids' divisions.

Our domestic wholesale net sales increased \$22.9 million, or 2.4%, to \$993.7 million for the nine months ended September 30, 2017 from \$970.8 million for the nine months ended September 30, 2016. The increase in the domestic wholesale segment's net sales came on a 6.3% unit sales volume increase to 44.8 million pairs for the nine months ended September 30, 2017 from 42.2 million pairs for the same period in 2016. The increase in our domestic wholesale segment was primarily attributable to increased sales in our Women's Active, Men's USA, Kids' and Women's USA divisions. The average selling price per pair within the domestic wholesale segment decreased to \$22.18 per pair for the nine months ended September 30, 2017 from \$23.03 per pair for the same period last year, which was attributable to a product sales mix with lower average selling prices.

Our international wholesale segment sales increased \$222.2 million, or 20.2%, to \$1.324 billion for the nine months ended September 30, 2017 compared to sales of \$1.101 billion for the nine months ended September 30, 2016. Direct subsidiary sales increased \$197.2 million, or 22.5%, to \$1.072 billion for the nine months ended September 30, 2017 compared to net sales of \$875.1 million for the nine months ended September 30, 2016. The largest sales increases during the period came from our subsidiaries in Canada and our joint ventures in China and Korea, primarily due to increased sales of product from our Women's and Men's Sport, Women's and Men's GO and Kids' divisions. Our distributor sales increased \$25.0 million to \$251.4 million for the nine months ended September 30, 2017, an 11.1% increase from sales of \$226.4 million for the nine months ended September 30, 2016. The increase was primarily due to increased sales to our distributors in the United Arab Emirates and Indonesia.

Our retail segment sales increased \$149.4 million to \$876.2 million for the nine months ended September 30, 2017, a 20.6% increase over sales of \$726.8 million for the nine months ended September 30, 2016. The increase in retail

sales was primarily attributable to increased comparable store sales of 5.0% resulting from increased sales of product from our Women's and Men's Sport, Women's GO, Men's USA and Kids' divisions. During the nine months ended September 30, 2017, we opened five domestic concept stores, five domestic outlet stores, 18 domestic warehouse stores, 13 international concept stores, 13 international outlet stores, and four international warehouse stores. We closed five domestic concept stores. For the nine months ended September 30, 2017, our domestic retail sales increased 10.9% compared to the same period in 2016, which was primarily attributable to positive comparable domestic store sales of 4.2% and a net increase of 30 domestic stores. Our international retail store sales increased 49.1%, which was primarily attributable to positive comparable international store sales of 7.3% and a net increase of 37 international stores when compared to the prior year period.

Gross profit

Gross profit for the nine months ended September 30, 2017 increased \$206.4 million to \$1.485 billion as compared to \$1.278 billion for the nine months ended September 30, 2016. Gross profit as a percentage of net sales, or gross margin, increased to 46.5% for the nine months ended September 30, 2017 from 45.7% for the same period in the prior year. Our domestic wholesale segment gross profit increased \$3.2 million, or 0.9%, to \$376.5 million for the nine months ended September 30, 2017 compared to \$373.3 million for the nine months ended September 30, 2016, primarily attributable to increased sales. Domestic wholesale margins

decreased to 37.9% for the nine months ended September 30, 2017 from 38.5% for the same period in the prior year. The decrease in domestic wholesale margins was attributable to a product sales mix with slightly lower average margins.

Gross profit for our international wholesale segment increased \$114.9 million, or 23.9%, to \$594.9 million for the nine months ended September 30, 2017 compared to \$480.0 million for the nine months ended September 30, 2016. International wholesale gross margins were 44.9% for the nine months ended September 30, 2017 compared to 43.6% for the nine months ended September 30, 2016. Gross margins for our direct subsidiary sales increased to 49.2% for the nine months ended September 30, 2017 as compared to 48.1% for the nine months ended September 30, 2016, which was attributable to price increases from the prior year period and favorable foreign currency translations. Gross margins for our distributor sales were 26.6% for the nine months ended September 30, 2017 as compared to 26.1% for the nine months ended September 30, 2016.

Gross profit for our retail segment increased \$88.3 million, or 20.8%, to \$513.4 million for the nine months ended September 30, 2017 as compared to \$425.1 million for the nine months ended September 30, 2016. Gross margins for all company-owned domestic and international stores and our e-commerce business were 58.6% for the nine months ended September 30, 2017 as compared to 58.5% for the nine months ended September 30, 2016. Gross margin for our domestic stores was 60.5% for the nine months ended September 30, 2017 as compared to 60.8% for the nine months ended September 30, 2016. Gross margins for our international stores were 54.5% and 51.6% for the nine months ended September 30, 2017 and 2016, respectively. The increase in international retail gross margins was primarily attributable to a product sales mix with higher average margins and favorable foreign currency translations.

Selling expenses

Selling expenses increased by \$65.7 million, or 33.2%, to \$263.3 million for the nine months ended September 30, 2017 from \$197.6 million for the nine months ended September 30, 2016. As a percentage of net sales, selling expenses were 8.2% and 7.1% for the nine months ended September 30, 2017 and 2016, respectively. The increase in selling expenses was primarily attributable to higher advertising expenses of \$44.9 million to support our global growth and higher sales commissions of \$20.2 million due to increased net sales for the nine months ended September 30, 2017.

General and administrative expenses

General and administrative expenses increased by \$157.2 million, or 21.0%, to \$904.6 million for the nine months ended September 30, 2017 from \$747.4 million for the nine months ended September 30, 2016. As a percentage of sales, general and administrative expenses were 28.4% and 26.7% for the nine months ended September 30, 2017 and 2016, respectively. The increase in general and administrative expenses was primarily attributable to \$71.7 million related to supporting our international wholesale operations due to increased sales volumes and expansion into newer markets, \$20.1 million and \$33.6 million of additional operating expenses attributable to operating 37 new international and 30 new domestic retail stores, respectively, since September 30, 2016. The expenses related to our distribution network, including purchasing, receiving, inspecting, allocating, warehousing and packaging of our products, increased \$21.6 million to \$168.0 million for the nine months ended September 30, 2017 from \$146.4 million for the nine months ended September 30, 2016. The increase in warehousing costs was primarily due to increased sales volumes worldwide.

Other income (expense)

Interest income was \$1.6 million and \$0.9 million for the nine months ended September 30, 2017 and 2016, respectively. Interest expense increased \$0.4 million to \$4.9 million for the nine months ended September 30, 2017

compared to \$4.5 million for the same period in 2016. Interest expense was incurred primarily on amounts owed to our foreign manufacturers and for loans related to our international joint ventures. Other income increased \$6.8 million to \$5.5 million for the nine months ended September 30, 2017 as compared to other expense of \$1.3 million for the same period in 2016 due to increased foreign currency exchange gains. This increased foreign currency exchange gain was primarily attributable to the impact of a weaker U.S. dollar on our intercompany investments in our foreign subsidiaries.

Income taxes

Income tax expense and the effective tax rate for the nine months ended September 30, 2017 and 2016 were as follows (in thousands, except the effective tax rate):

	Nine Months Ended			
	September 30,			
	2017	2016		
Income tax expense	\$42,546	\$67,144		
Effective tax rate	12.9	%	19.9	%

The tax provisions for the nine months ended September 30, 2017 and 2016 were computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. We estimate our effective annual tax rate for 2017 to be approximately 13%, which is subject to management's quarterly review and revision, as necessary.

Our provision for income tax expense and effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (loss) before income taxes. In the foreign jurisdictions in which we have operations, the applicable statutory rates range from 0% to 34%, which are generally significantly lower than the U.S. federal and state combined statutory rate of approximately 39%. For the nine months ended September 30, 2017, the decrease in the effective tax rate was primarily due to an increase in the amount of projected foreign earnings relative to projected domestic earnings as compared to the same period in the prior year as well as \$1.1 million in excess tax benefits recorded due to implementing ASU 2016-09.

Non-controlling interests in net income of consolidated subsidiaries

Net earnings attributable to non-controlling interests for the nine months ended September 30, 2017 increased \$7.6 million to \$41.0 million as compared to \$33.4 million for the same period in 2016 attributable to increased profitability by our joint ventures. Non-controlling interests represents the share of net earnings that is attributable to our joint venture partners.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our working capital at September 30, 2017 was \$1.475 billion, an increase of \$269.3 million from working capital of \$1.206 billion at December 31, 2016. Our cash and cash equivalents at September 30, 2017 were \$802.9 million, compared to \$718.5 million at December 31, 2016. The increase in cash and cash equivalents of \$84.4 million, after consideration of the effect of exchange rates, was the result of our net earnings of \$286.9 million, which was offset by a decrease in accounts payable of \$25.1 million and by an increase in account receivables of \$164.4 million. Our primary sources of operating cash are collections from customers on wholesale and retail sales. Our primary uses of cash are inventory purchases, selling, general and administrative expenses, and capital expenditures.

Operating Activities

For the nine months ended September 30, 2017, net cash provided by operating activities was \$175.5 million as compared to \$242.9 million for the nine months ended September 30, 2016. The \$67.4 million decrease in cash flows provided by operating activities for the nine months ended September 30, 2017, primarily resulted from a smaller decrease in cash flows from inventory of \$90.2 million and a larger increase in accounts receivable of \$70.7 million, offset by a smaller decrease in accounts payable of \$67.4 million during the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016.

Investing Activities

Net cash used in investing activities was \$103.9 million for the nine months ended September 30, 2017 as compared to \$84.1 million for the nine months ended September 30, 2016. The \$19.8 million increase in net cash used in investing activities for the nine months ended September 30, 2017 as compared to the same period in the prior year was primarily the result of higher capital expenditures of \$21.4 million. Capital expenditures were \$102.2 million for the nine months ended September 30, 2017 primarily consisted of \$56.5 million for new store openings and remodels, an additional \$19.9 million for land to be used for our China distribution center, and \$13.9 million to support our international wholesale operations. This was compared to capital expenditures of \$80.8 million for the nine months ended September 30, 2016, of which \$35.9 million consisted of new store openings and remodels, \$7.0 million paid for a corporate property purchase for future development, and \$13.5 million paid for equipment costs for increased automation at our European Distribution Center. We expect our capital expenditures for the remainder of 2017 to be approximately \$20 million to \$25 million, which includes opening an additional 12 to 15 Company-owned retail stores and several store remodels and investments in our international operations. We expect to fund all our capital expenditures through existing cash balances and cash from operations.

Financing Activities

Net cash provided by financing activities was \$2.5 million during the nine months ended September 30, 2017 compared to \$4.9 million in net cash used in financing activities during the nine months ended September 30, 2016. The \$7.4 million increase in cash provided by financing activities for the nine months ended September 30, 2017 as compared to the same period in the prior year is primarily attributable to increased borrowings on long-term debt of \$5.6 million, and reduced payments on long-term debt of \$13.9 million, which were partially offset by decreased contributions from non-controlling interests of \$5.7 million, a decrease in excess tax benefits from share-based compensation of \$4.6 million and an increase in distributions from non-controlling interests of \$1.4 million.

Sources of Liquidity

On June 30, 2015, we entered into a \$250.0 million loan and security agreement, subject to increase by up to \$100.0 million, (the "Credit Agreement"), with the following lenders: Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association. The Credit Agreement matures on June 30, 2020. The Credit Agreement replaces the credit agreement dated June 30, 2009, which expired on June 30, 2015. The Credit Agreement permits us and certain of our subsidiaries to borrow based on a percentage of eligible accounts receivable plus the sum of (a) the lesser of (i) a percentage of eligible inventory to be sold at wholesale and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at wholesale, plus (b) the lesser of (i) a percentage of the value of eligible inventory to be sold at retail and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at retail, plus (c) the lesser of (i) a percentage of the value of eligible in-transit inventory and (ii) a percentage of the net orderly liquidation value of eligible in-transit inventory. Borrowings bear interest at our election based on (a) LIBOR or (b) the greater of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5% and (iii) LIBOR for a 30-day period plus 1.0%, in each case, plus an applicable margin based on the average daily principal balance of revolving loans available under the Credit Agreement. We pay a monthly unused line of credit fee of 0.25%, payable on the first day of each month in arrears, which is based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of \$100.0 million. The Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the Company and its subsidiaries to, among other things, incur debt, grant liens, make certain acquisitions, dispose of assets, effect a change of control of the Company, make certain restricted payments including certain dividends and stock redemptions, make certain investments or loans, enter into certain transactions with affiliates and certain prohibited uses of proceeds. The Credit Agreement also requires compliance with a minimum fixed-charge

coverage ratio if Availability drops below 10% of the Revolver Commitments (as such terms are defined in the Credit Agreement) until the date when no event of default has existed and Availability has been over 10% for 30 consecutive days. We paid closing and arrangement fees of \$1.1 million on this facility, which are being amortized to interest expense over the five-year life of the facility. As of September 30, 2017, there was \$0.1 million outstanding under this credit facility, which is classified as short-term borrowings in our condensed consolidated balance sheets. The remaining balance in short-term borrowings, as of September 30, 2017, is related to our international operations.

On April 30, 2010, HF Logistics-SKX,LLC (the "JV"), through HF Logistics-SKX T1, LLC, a Delaware limited liability company and a wholly-owned subsidiary of the JV ("HF-T1"), entered into a construction loan agreement with Bank of America, N.A. as administrative agent and as a lender, and Raymond James Bank, FSB, as a lender (collectively, the "Construction Loan Agreement"), pursuant to which the JV obtained a loan of up to \$55.0 million used for construction of the Project on the Property (the "Original Loan"). On November 16, 2012, HF-T1 executed a modification to the Construction Loan Agreement (the "Modification"), which added OneWest Bank, FSB as a lender, increased the borrowings under the Original Loan to \$80.0 million and extended the maturity date of the Original Loan to October 30, 2015. On August 11, 2015, the JV through HF-T1 entered into an amended and

restated loan agreement with Bank of America, N.A., as administrative agent and as a lender, and CIT Bank, N.A. (formerly known as OneWest Bank, FSB) and Raymond James Bank, N.A., as lenders (collectively, the "Amended Loan Agreement"), which amends and restates in its entirety the Construction Loan Agreement and the Modification.

As of the date of the Amended Loan Agreement, the outstanding principal balance of the Original Loan was \$77.3 million. In connection with this refinancing of the Original Loan, the JV, the Company and HF agreed that we would make an additional capital contribution of \$38.7 million to the JV for the JV through HF-T1 to use to make a payment on the Original Loan. The payment equaled our 50% share of the outstanding principal balance of the Original Loan. Under the Amended Loan Agreement, the parties agreed that the lenders would loan \$70.0 million to HF-T1 (the "New Loan"). The New Loan was used by the JV through HF-T1 to (i) refinance all amounts owed on the Original Loan after taking into account the payment described above, (ii) pay \$0.9 million in accrued interest, loan fees and other closing costs associated with the New Loan and (iii) make a distribution of \$31.3 million less the amounts described in clause (ii) to HF. Pursuant to the Amended Loan Agreement, the interest rate on the New Loan is the LIBOR Daily Floating Rate (as defined in the Amended Loan Agreement) plus a margin of 2%. The maturity date of the New Loan is August 12, 2020, which HF-T1 has one option to extend by an additional 24 months, or until August 12, 2022, upon payment of a fee and satisfaction of certain customary conditions. On August 11, 2015, HF-T1 and Bank of America, N.A. entered into an ISDA Master Agreement (together with the schedule related thereto, the "Swap Agreement") to govern derivative and/or hedging transactions that HF-T1 concurrently entered into with Bank of America, N.A. Pursuant to the Swap Agreement, on August 14, 2015, HF-T1 entered into a confirmation of swap transactions (the "Interest Rate Swap") with Bank of America, N.A. The Interest Rate Swap has an effective date of August 12, 2015 and a maturity date of August 12, 2022, subject to early termination at the option of HF-T1, commencing on August 1, 2020. The Interest Rate Swap fixes the effective interest rate on the New Loan at 4.08% per annum. Pursuant to the terms of the JV, HF Logistics is responsible for the related interest expense on the New Loan, and any amounts related to the Swap Agreement. The full amount of interest expense related to the New Loan has been included in our condensed consolidated statements of equity within non-controlling interests. The Amended Loan Agreement and the Swap Agreement are subject to customary covenants and events of default. Bank of America, N.A. also acts as a lender and syndication agent under our credit agreement dated June 30, 2015. We had \$67.0 million outstanding under the Amended Loan Agreement, of which \$1.5 million and \$65.5 million is included in current installments of long-term borrowings and long-term borrowings, respectively, as of September 30, 2017.

As of September 30, 2017, outstanding short-term and long-term borrowings were \$83.8 million, of which \$67.6 million relates to loans for our domestic distribution center and the remaining balance relates to our international operations. Our long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. We were in compliance with all debt covenants under the Amended Loan Agreement and the Credit Agreement as of the date of this quarterly report.

We believe that anticipated cash flows from operations, available borrowings under our credit agreement, existing cash balances and current financing arrangements will be sufficient to provide us with the liquidity necessary to fund our anticipated working capital and capital requirements at least through November 30, 2018. Our future capital requirements will depend on many factors, including, but not limited to, the global economy and the outlook for and pace of sustainable growth in our markets, the levels at which we maintain inventory, sale of excess inventory at discounted prices, the market acceptance of our footwear, the success of our international operations, the levels of advertising and marketing required to promote our footwear, the extent to which we invest in new product design and improvements to our existing product design, any potential acquisitions of other brands or companies, and the number and timing of new store openings. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private financing of debt or equity. We have been successful in the past in raising additional funds through financing activities; however, we cannot be assured that additional financing will be available to us or that, if available, it can be obtained on past terms which have been favorable to our stockholders and us. Failure to obtain such financing could delay or prevent our current business plans, which could

adversely affect our business, financial condition and results of operations. In addition, if additional capital is raised through the sale of additional equity or convertible securities, dilution to our stockholders could occur.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a detailed discussion of our critical accounting policies, please refer to our annual report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 1, 2017. Our critical accounting policies and estimates did not change materially during the quarter ended September 30, 2017.

Recent Accounting Pronouncements

Refer to the accompanying Notes to the Condensed Consolidated Financial Statements for recently adopted and recently issued accounting standards.

QUARTERLY RESULTS AND SEASONALITY

While sales of footwear products have historically been seasonal in nature with the strongest domestic sales generally occurring in the second and third quarters, we believe that changes in our product offerings and growth in our international sales and retail sales segments have partially mitigated the effect of this seasonality.

We have experienced, and expect to continue to experience, variability in our net sales and operating results on a quarterly basis. Our domestic customers generally assume responsibility for scheduling pickup and delivery of purchased products. Any delay in scheduling or pickup which is beyond our control could materially negatively impact our net sales and results of operations for any given quarter. We believe the factors which influence this variability include (i) the timing of our introduction of new footwear products, (ii) the level of consumer acceptance of new and existing products, (iii) general economic and industry conditions that affect consumer spending and retail purchasing, (iv) the timing of the placement, cancellation or pickup of customer orders, (v) increases in the number of employees and overhead to support growth, (vi) the timing of expenditures in anticipation of increased sales and customer delivery requirements, (vii) the number and timing of our new retail store openings and (viii) actions by competitors. Because of these and other factors including those referenced or incorporated by reference in our annual report on Form 10-K for the year ended December 31, 2016 under the captions "Item 1A: Risk Factors" and "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations," the operating results for any particular quarter are not necessarily indicative of the results for the full year.

INFLATION

We do not believe that the rates of inflation experienced in the United States over the last three years have had a significant effect on our sales or profitability. However, we cannot accurately predict the effect of inflation on future operating results. Although higher rates of inflation have been experienced in a number of foreign countries in which our products are manufactured, we do not believe that inflation has had a material effect on our sales or profitability. While we have been able to offset our foreign product cost increases by increasing prices or changing suppliers in the past, we cannot assure you that we will be able to continue to make such increases or changes in the future.

EXCHANGE RATES

Although we currently invoice most of our customers in U.S. dollars, changes in the value of the U.S. dollar versus the local currency in which our products are sold, along with economic and political conditions of such foreign countries, could adversely affect our business, financial condition and results of operations. Purchase prices for our products may be impacted by fluctuations in the exchange rate between the U.S. dollar and the local currencies of the contract manufacturers, which may have the effect of increasing our cost of goods in the future. In addition, the weakening of an international customer's local currency and banking market may negatively impact such customer's ability to meet their payment obligations to us. We regularly monitor the creditworthiness of our international customers and make credit decisions based on both prior sales experience with such customers and their current financial performance, as well as overall economic conditions. While we currently believe that our international customers have the ability to meet all of their obligations to us, there can be no assurance that they will continue to be able to meet such obligations. During 2016 and the first nine months of 2017, exchange rate fluctuations did not have a material impact on our net sales or inventory costs. We do not engage in hedging activities with respect to such exchange rate risk.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest rate fluctuations. As of September 30, 2017, we have \$10.6 million and \$67.0 million of outstanding short-term and long-term borrowings, respectively, subject to changes in interest rates. A 200 basis point increase in interest rates would have increased interest expense by approximately \$0.3 million for the quarter ended September 30, 2017. We do not expect any changes in interest rates to have a material impact on our financial condition or results of operations during the remainder of 2017. The interest rate charged on our domestic secured line of credit facility is based on the prime rate of interest and our domestic distribution center loan is based on the one month LIBOR. Changes in the prime rate of interest or the LIBOR interest rate will have an effect on the interest charged on outstanding balances.

We have entered into derivative financial instruments such as interest rate swaps in order to mitigate our interest rate risk on our long-term debt. We will not enter into derivative transactions for speculative purposes. We had one derivative instrument in place as of September 30, 2017 to hedge the cash flows on our \$67.0 million variable rate debt on our domestic distribution center. This instrument was a variable to fixed derivative with a notional amount of \$67.0 million at September 30, 2017. Our average receive rate was one month LIBOR and the average pay rate was 2.08%. The rate swap agreement utilized by us effectively modifies our exposure to interest rate risk by converting our floating-rate debt to a fixed rate basis over the life of the loan, thus reducing the impact of interest-rate changes on future interest payments.

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

Assets and liabilities outside the United States are located in regions where we have subsidiaries or joint ventures: Asia, Central America, Europe, Middle East, North America, and South America. Our investments in foreign subsidiaries and joint ventures with a functional currency other than the U.S. dollar are generally considered long-term. Accordingly, we do not hedge these net investments. The fluctuation of foreign currencies resulted in a cumulative foreign currency translation gain of \$8.6 million and \$7.3 million for the nine months ended September 30, 2017 and 2016, respectively, that are deferred and recorded as a component of accumulated other comprehensive income in stockholders' equity. A 200 basis point reduction in each of these exchange rates at September 30, 2017 would have reduced the values of our net investments by approximately \$26.7 million.

ITEM 4. CONTROLS AND PROCEDURES

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

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting during the three months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all 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 attributable to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Assessments of any evaluation of controls' effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements as a result of error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 our company, and that we failed to provide adequate warnings of alleged risks associated with Shape-ups. In total, we are named as a defendant in 16 currently active, pending cases (some on behalf of multiple plaintiffs) filed in various courts that assert further varying injuries but employ similar legal theories and assert similar claims to the first case, as well as claims for breach of express and implied warranties, loss of consortium, and fraud. Although there are some variations in the relief sought, the plaintiffs generally seek compensatory and/or economic damages, exemplary and/or punitive damages, and attorneys' fees and costs.

On December 19, 2011, the Judicial Panel on Multidistrict Litigation issued an order establishing a multidistrict litigation ("MDL") 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. Since 2011, a total of 1,235 personal injury cases have been filed in or transferred to the MDL proceeding. Skechers has resolved 1,754 personal injury claims in the MDL proceedings, comprised of 1,152 that were filed as formal actions and 602 that were submitted by plaintiff fact sheets. Skechers has also settled another 26 claims in principle—9 filed cases and 17 claims submitted by plaintiff fact sheets—either directly or pursuant to a global settlement program that has been approved by the claimants' attorneys (described in greater detail below). Further, 71 cases in the MDL proceeding have been dismissed either voluntarily or on motions by Skechers and 38 unfiled claims submitted by plaintiff fact sheet have been abandoned. Between the consummated settlements and cases subject to the settlement program, all but 3 personal injury cases pending in the MDL have been or are expected to be resolved. Discovery in the three remaining, unsettled cases is continuing. No trial dates have been set. All other MDL actions are stayed.

Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group also have been named as defendants in a total of 72 personal injury actions filed in various Superior Courts of the State of California that were brought on behalf of 920 individual plaintiffs (360 of whom also submitted MDL court-approved questionnaires for mediation purposes in the MDL proceeding). Of those cases, 68 were originally filed in the Superior Court for the County of Los

Angeles (the “LASC cases”). On August 20, 2014, the Judicial Council of California granted a petition by our company to coordinate all personal injury actions filed in California that relate to Shape-ups with the LASC cases (collectively, the “LASC Coordinated Cases”). On October 6, 2014, three cases that had been pending in other counties were transferred to and coordinated with the LASC Coordinated Cases. On April 17, 2015, an additional case was transferred to and coordinated with the LASC Coordinated Cases. Fifty-seven actions brought on behalf of a total of 647 plaintiffs have been settled and dismissed. Twelve actions have been partially dismissed, with the claims of 219 plaintiffs being fully resolved. The claims of one additional plaintiff from these partially settled multi-plaintiff lawsuits have been settled in principle pursuant to a global settlement program that has been approved by the plaintiffs’ attorneys (described in greater detail below). The claims of 5 plaintiffs from a pending multi-plaintiff action and the claims of another plaintiff in a single-plaintiff action have been settled in principle and should be dismissed in the short term. One single-plaintiff lawsuit and the claims of 28 additional plaintiffs in multi-plaintiff lawsuits have been dismissed entirely, either voluntarily or on motion by us. The claims of 21 additional persons have been dismissed in part, either voluntarily or on motions by us. Thus, taking into account both consummated settlements and cases subject to the settlement program, only 13 lawsuits on behalf of a total of 18 plaintiffs are expected to remain in the LASC Coordinated Cases. Discovery is continuing in those thirteen remaining cases. No trial dates have been set.

In other state courts, a total of 12 personal injury actions (some on behalf of numerous plaintiffs) have been filed that have not been removed to federal court and transferred to the MDL. Eleven of those actions have been resolved and dismissed, and the remaining one has now been settled in principal and should be dismissed in the short term.

With respect to the global settlement programs referenced above, the personal injury cases in the MDL and LASC Coordinated Cases and in other state courts were largely solicited and handled by the same plaintiffs law firms. Accordingly, mediations to discuss potential resolution of the various lawsuits brought by these firms were held on May 18, June 18, and July 24, 2015. At the conclusion of those mediations, the parties reached an agreement in principle on a global settlement program that is expected to resolve all or substantially all of the claims by persons represented by those firms. A master settlement agreement was executed as of March 24, 2016 and the parties are in the process of completing individual settlements. To the extent that the settlements with individual claimants are not finalized or otherwise consummated such that the litigation proceeds, it is too early to predict the outcome of any case, whether adverse results in any single case or in the aggregate would have a material adverse impact on our operations or financial position, and whether insurance coverage will be adequate to cover any losses. The settlements have been reached for business purposes in order to end the distraction of litigation, and we continue to believe we have meritorious defenses and intend to defend any remaining cases vigorously. In addition, it is too early to predict whether there will be future personal injury cases filed which are not covered by the global settlement program, whether adverse results in any single case or in the aggregate would have a material adverse impact on our operations or financial position, and whether insurance coverage will be available and/or adequate to cover any losses.

Converse, Inc. v. Skechers U.S.A., Inc. — On October 14, 2014, Converse filed an action against our company in the United States District Court for the Eastern District of New York, Brooklyn Division, Case 1:14-cv-05977-DLI-MDG, alleging trademark infringement, false designation of origin, unfair competition, trademark dilution and deceptive practices arising out of our alleged use of certain design elements on footwear. The complaint seeks, among other things, injunctive relief, profits, actual damages, enhanced damages, punitive damages, costs and attorneys' fees. On October 14, 2014, Converse also filed a complaint naming 27 respondents including our company with the U.S. International Trade Commission (the "ITC" or "Commission"), Federal Register Doc. 2014-24890, alleging violations of federal law in the importation into and the sale within the United States of certain footwear. Converse has requested that the Commission issue a general exclusion order, or in the alternative a limited exclusion order, and cease and desist orders. On December 8, 2014, the District Court stayed the proceedings before it. On December 19, 2014, Skechers responded to the ITC complaint, denying the material allegations and asserting affirmative defenses. A trial before an administrative law judge of the ITC was held in August 2015. On November 15, 2015, the ITC judge issued his interim decision finding that certain discontinued products (Daddy's Money and HyDee HyTops) infringed on Converse's intellectual property, but that other, still active product lines (Twinkle Toes and Bobs Utopia) did not. On February 3, 2016, the ITC decided that it would review in part certain matters that were decided by the ITC judge. On June 28, 2016, the full ITC issued a ruling affirming that Skechers Twinkle Toes and Bobs canvas shoes do not infringe Converse's Chuck Taylor Midsole Trademark and affirming that Converse's common law trademark was invalid. The full ITC also invalidated Converse's registered trademark. Converse appealed this decision to the United States Court of Appeals for the Federal Circuit. On January 27, 2017, Converse filed its appellate brief but did not contest the portion of the decision that held that Skechers Twinkle Toes and Bobs canvas shoes do not infringe. On June 26, 2017, we filed our responsive brief, and we are currently awaiting the court's setting of a date for oral argument. While it is too early to predict the outcome of these legal proceedings or whether an adverse result in either or both of them would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend these legal matters vigorously.

adidas America, Inc., et. al v. Skechers USA, Inc. — On September 14, 2015, adidas filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:15-cv-1741, alleging that three Skechers shoe styles (Skechers Onix, Skechers Relaxed Fit Cross Court TR, and Skechers Relaxed Fit – Supernova Style) infringe adidas' trademarks and/or trade dress rights. adidas asserts claims under federal and state law for trademark

and trade dress infringement, unfair competition, trademark and trade dress dilution, unfair and deceptive trade practices, and breach of a settlement agreement entered into between the parties in 1995. adidas seeks injunctive relief, disgorgement of Skechers' profits, damages (including treble, enhanced and punitive damages), and attorneys' fees. On September 14, 2015, adidas filed a motion for preliminary injunction in which it sought to preliminarily restrain us from manufacturing, distributing, advertising, selling, or offering for sale any footwear (a) that is confusingly similar to adidas' STAN SMITH Trade Dress, (b) bearing stripes in a manner that is confusingly similar to adidas' Three-Stripe Mark, or (c) under adidas' SUPERNOVA Mark. We opposed adidas' motion. A hearing on adidas' motion was held on December 15, 2015. On February 12, 2016, the Court issued a preliminary injunction prohibiting us from selling two styles from our vast footwear collection and from using the word "Supernova" in connection with a third style. We have appealed the Court's order granting the injunction to the United States Court of Appeals for the Ninth Circuit. Trial has been continued from August 8, 2017 to April 3, 2018. While it is too early to predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

Nike, Inc., v. Skechers USA, Inc. — On January 4, 2016, Nike filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:16-cv-0007, alleging that certain Skechers shoe designs (Men’s Burst, Women’s Burst, Women’s Flex Appeal, Men’s Flex Advantage, Girls’ Skech Appeal, and Boys’ Flex Advantage) infringe the claims of eight design patents. Nike seeks injunctive relief, disgorgement of Skechers’ profits, damages (including treble damages), pre-judgment and post-judgment interest, attorneys’ fees, and costs. In April and May, 2016, we filed petitions with the United States Patent and Trademark Office’s Patent Trial and Appeal Board (the “PTAB”) for inter partes review of all eight design patents, seeking to invalidate those patents. In September and November 2016, the Patent Trial and Appeal Board denied each of our petitions. On January 6, 2017, we filed several additional petitions for inter partes review with the PTAB, seeking to invalidate seven of the eight designs patents that Nike is asserting. In July 2017, we were notified that the PTAB granted our petitions and instituted inter partes review proceedings with respect to two of the seven design patents but denied our petitions as to the others. In June 2017, we filed a motion to transfer venue from the District of Oregon to the Central District of California based on a recent United States Supreme Court decision. That motion is currently pending. While it is too early to predict the outcome of either the District Court or the PTAB proceedings or whether an adverse result in the District Court case would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

adidas America, Inc. and adidas AG v. Skechers USA, Inc. – On July 11, 2016, adidas filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:16-cv-01400-AC, alleging that certain of our children’s styles (Boys’ Mega Blade 2.0 and 2.5) infringe two of adidas’ patents. The complaint seeks, among other things, injunctive relief and damages (including treble damages). On July 28, 2016, adidas filed a motion for a preliminary injunction, asking the Court to preliminarily restrain Skechers from importing, manufacturing, distributing, advertising, selling, or offering for sale any of the accused styles. In related activity, on April 26, 2017, the United States Patent and Trial Appeal Board (the “PTAB”) granted petitions by Skechers and instituted inter partes review proceedings as to certain claims under the two patents at issue in this litigation, finding that Skechers had “establishe[d] a reasonable likelihood that [it] will prevail in showing the unpatentability of at least one of the claims” in each patent. Trial on these issues before the PTAB has been set for January 8, 2018. The PTAB subsequently denied two other inter partes review petitions filed by Skechers with respect to the same two adidas patents, and then granted a third petition for additional claims in one of the same patents on August 15, 2017. On June 12, 2017, the Court denied adidas’ motion for a preliminary injunction and stayed the lawsuit pending the outcome of the PTAB proceedings. On July 10, 2017, adidas filed a notice of appeal of the Court’s denial of its motion for preliminary injunction, but subsequently abandoned that appeal. While it is too early to predict the outcome of either the District Court or the PTAB proceedings or whether an adverse result in the District Court case would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

Steamfitters Local 449 Pension Plan v. Skechers USA, Inc., Robert Greenberg and David Weinberg. – On October 20, 2017, the Steamfitters Local 449 Pension Plan filed a securities class action, on behalf of itself and purportedly on behalf of other shareholders who purchased Skechers stock in a five-month period in 2015, against our company and certain of its officers in the United States District Court for the Southern District of New York, case number 1:17-cv-08107. The lawsuit alleges that, between April 23 and October 22, 2015, we made materially false statements or omissions of material fact about the anticipated performance of our Domestic Wholesale segment and asserts claims for unspecified damages, attorneys' fees and equitable relief based on two counts for alleged violations of federal securities laws. Given the early stage of this proceeding and the limited information available, we cannot predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position. We believe we have meritorious defenses and intend to defend this matter vigorously.

Monique Cadle v. Skechers U.S.A., Inc., Robert Greenberg and David Weinberg. – On October 27, 2017, Monique Cadle filed a securities class action, on behalf of herself and purportedly on behalf of other shareholders who purchased Skechers stock in a five-month period in 2015, against our company and certain of its officers in the United States District Court for the Southern District of New York, case number 1:17-cv-08305. The lawsuit alleges that, between April 23 and October 22, 2015, we made materially false statements or omissions of material fact about the anticipated performance of our Domestic Wholesale segment and asserts claims for unspecified damages, attorneys' fees and equitable relief based on two counts for alleged violations of federal securities laws. Given the early stage of this proceeding and the limited information available, we cannot predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position. We believe we have meritorious defenses and intend to defend this matter vigorously.

In addition to the matters included in its reserve for loss contingencies, we occasionally become involved in litigation arising from the normal course of business, and we are unable to determine the extent of any liability that may arise from any such unanticipated future litigation. We have no reason to believe that there is a reasonable possibility or a probability that we may incur a material loss, or a material loss in excess of a recorded accrual, with respect to any other such loss contingencies. However, the outcome of litigation is inherently uncertain and assessments and decisions on defense and settlement can change significantly in a short period of time. Therefore, although we consider the likelihood of such an outcome to be remote with respect to those matters for which we have not reserved an amount for loss contingencies, if one or more of these legal matters were resolved against our company

in the same reporting period for amounts in excess of our expectations, our consolidated financial statements of a particular reporting period could be materially adversely affected.

ITEM 1A. RISK FACTORS

The information presented below updates the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2016 and should be read in conjunction with the risk factors and other information disclosed in our 2016 annual report on Form 10 K that could have a material effect on our business, financial condition and results of operations.

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

During the nine months ended September 30, 2017 and 2016, our net sales to our five largest customers accounted for approximately 12.5% and 11.7% of total net sales, respectively. No customer accounted for more than 10.0% of our net sales during the nine months ended September 30, 2017 and 2016. No customer accounted for more than 10.0% of outstanding accounts receivable balance at September 30, 2017 or December 31, 2016. Although we have long-term relationships with many of our customers, our customers do not have a contractual obligation to purchase our products and we cannot be certain that we will be able to retain our existing major customers. Furthermore, the retail industry regularly experiences consolidation, contractions and closings which may result in our loss of customers or our inability to collect accounts receivable of major customers. If we lose a major customer, experience a significant decrease in sales to a major customer or are unable to collect the accounts receivable of a major customer, our business could be harmed.

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

Our footwear products are currently manufactured by independent contract manufacturers. During the nine months ended September 30, 2017 and 2016, the top five manufacturers of our manufactured products produced approximately 49.8% and 52.2% of our total purchases, respectively. One manufacturer accounted for 19.8% of total purchases for the nine months ended September 30, 2017 and the same manufacturer accounted for 23.8% of total purchases for the same period in 2016. We do not have long-term contracts with manufacturers and we compete with other footwear companies for production facilities. We could experience difficulties with these manufacturers, including reductions in the availability of production capacity, failure to meet our quality control standards, failure to meet production deadlines or increased manufacturing costs. This could result in our customers canceling orders, refusing to accept deliveries or demanding reductions in purchase prices, any of which could have a negative impact on our cash flow and harm our business.

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

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

As of September 30, 2017, our Chairman of the Board and Chief Executive Officer, Robert Greenberg, beneficially owned 75.2% of our outstanding Class B common shares, members of Mr. Greenberg's immediate family beneficially owned an additional 10.9% 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 34.3% of our outstanding Class B common shares. The holders of Class A common shares and Class B common shares have identical rights except that holders of Class A common shares are entitled to one vote per share while holders of Class B common shares are entitled to ten votes per share on all matters submitted to a vote of our stockholders. As a result, as of September 30, 2017, Mr. Greenberg beneficially owned 35.2% of the aggregate number of votes eligible to be cast by our stockholders, and together with shares beneficially owned by other members of his immediate family, Mr. Greenberg and his immediate family beneficially owned 43.0% of the aggregate number of votes eligible to be cast by our stockholders, and Mr. Schwartzberg beneficially owned 22.2% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Messrs. Greenberg and Schwartzberg are each able to exert significant influence over, all matters requiring approval by our stockholders. Matters that require the approval of our stockholders include the election of directors and the approval of mergers or other business combination transactions. Mr. Greenberg also has significant influence over our management and operations. As a result of such influence, certain transactions are not likely without the approval of Messrs. Greenberg and Schwartzberg, including proxy contests, tender offers, open market purchase programs or other transactions that can give our stockholders the opportunity to realize a premium over the then-prevailing market prices for their shares of our Class A common shares. Because Messrs. Greenberg's and Schwartzberg's interests may differ from the interests of the other stockholders, their ability to substantially control or significantly influence, respectively, actions requiring stockholder approval, may result in our company taking action that is not in the interests of all stockholders. The differential in the voting rights may also adversely affect the value of our Class A common shares to the extent that investors or any potential future purchaser view the superior voting rights of our Class B common shares to have value.

ITEM 6. EXHIBITS

Exhibit

Number Description

- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

*In accordance with Item 601(b)(32)(ii) of Regulation S-K, this exhibit shall not be deemed “filed” for the purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 3, 2017 SKECHERS U.S.A., INC.

By: /s/ David Weinberg
David Weinberg
Chief Financial Officer