SKECHERS USA INC
Form 10-Q
May 08, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

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.)**
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 x 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 x No ¨

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

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

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

THE NUMBER OF SHARES OF CLASS A COMMON STOCK OUTSTANDING AS OF MAY 1, 2015: 42,114,398.

THE NUMBER OF SHARES OF CLASS B COMMON STOCK OUTSTANDING AS OF MAY 1, 2015: 9,914,396.

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

FORM 10-Q

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par values)

	March 31, 2015	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 396,710	$ 466,685
Trade accounts receivable, less allowances of $23,763 in 2015 and $21,007 in 2014	442,688	272,103
Other receivables	13,440	16,510
Total receivables	456,128	288,613
Inventories	392,192	453,837
Prepaid expenses and other current assets	51,401	57,015
Deferred tax assets	18,864	18,864
Total current assets	1,315,295	1,285,014
Property, plant and equipment, net	375,586	373,183
Other assets	22,702	16,721
Total non-current assets	398,288	389,904
TOTAL ASSETS	$ 1,713,583	$ 1,674,918
LIABILITIES AND EQUITY		
Current Liabilities:		
Current installments of long-term borrowings	$ 99,762	$ 101,407
Short-term borrowings	87	1,810
Accounts payable	321,034	352,815
Accrued expenses	61,467	49,705
Total current liabilities	482,350	505,737
Long-term borrowings, excluding current installments	13,660	15,081
Other long-term liabilities	21,040	19,993
Total non-current liabilities	34,700	35,074

Total liabilities	517,050	540,811
Commitments and contingencies		
Stockholders equity:		
Preferred Stock, $.001 par value; 10,000 shares authorized; none issued and outstanding		
Class A Common Stock, $.001 par value; 100,000 shares authorized; 40,673 and 40,287 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	41	40
Class B Common Stock, $.001 par value; 60,000 shares authorized; 10,214 and 10,470 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	10	10
Additional paid-in capital	362,174	355,636
Accumulated other comprehensive loss	(20,465)	(16,077)
Retained earnings	791,720	735,640
Skechers U.S.A., Inc. equity	1,133,480	1,075,249
Noncontrolling interests	63,053	58,858
Total equity	1,196,533	1,134,107
TOTAL LIABILITIES AND EQUITY	$ 1,713,583	$ 1,674,918

See accompanying notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except per share data)

	Three-Months Ended March 31, 2015	Three-Months Ended March 31, 2014
Net sales	$ 767,997	$ 546,518
Cost of sales	435,457	306,115
Gross profit	332,540	240,403
Royalty income	1,882	3,022
	334,422	243,425
Operating expenses:		
Selling	49,092	36,742
General and administrative	197,141	158,523
	246,233	195,265
Earnings from operations	88,189	48,160
Other income (expense):		
Interest income	186	103
Interest expense	(2,836)	(2,696)
Other, net	(4,761)	(1,082)
Total other expense	(7,411)	(3,675)
Earnings before income tax expense	80,778	44,485
Income tax expense	19,120	11,437
Net earnings	61,658	33,048
Less: Net earnings attributable to noncontrolling interests	5,578	2,083
Net earnings attributable to Skechers U.S.A., Inc.	$ 56,080	$ 30,965
Net earnings per share attributable to Skechers U.S.A., Inc.:		
Basic	$ 1.10	$ 0.61
Diluted	$ 1.10	$ 0.61

Weighted average shares used in calculating net earnings per share attributable to Skechers U.S.A, Inc.:		
Basic	50,804	50,558
Diluted	51,143	50,844

See accompanying notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three-Months Ended March 31, 2015		Three-Months Ended March 31, 2014	
Net earnings	$	61,658	$	33,048
Other comprehensive gain (loss), net of tax:				
(Loss) gain on foreign currency translation adjustment		(4,621)		302
Comprehensive income		57,037		33,350
Less: Comprehensive income attributable to noncontrolling interests		5,345		2,003
Comprehensive income attributable to Skechers U.S.A., Inc.	$	51,692	$	31,347

See accompanying notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three-Months Ended March 31, 2015	2014
Cash flows from operating activities:		
Net earnings	$ 61,658	$ 33,048
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation of property, plant and equipment	13,298	11,288
Amortization of deferred financing costs	300	300
Amortization of intangible assets	9	234
Provision for bad debts, returns and allowances	4,057	5,103
Tax benefit from share-based compensation		8
Non-cash share-based compensation	4,400	1,321
Loss on disposal of property, plant and equipment	14	128
Deferred income taxes	209	8,458
(Increase) decrease in assets:		
Receivables	(175,488)	(89,383)
Inventories	59,228	45,518
Prepaid expenses and other current assets	4,959	(1,381)
Other assets	(6,050)	(273)
Increase (decrease) in liabilities:		
Accounts payable	(30,276)	(43,174)
Accrued expenses	15,258	2,225
Net cash used in operating activities	(48,424)	(26,580)
Cash flows from investing activities:		
Capital expenditures	(14,623)	(11,369)
Purchases of investments	(801)	
Sales of investments	104	
Net cash used in investing activities	(15,320)	(11,369)
Cash flows from financing activities:		
Payments on long-term debt	(3,066)	(2,972)
Payments on short-term borrowings	(1,753)	(1)
Excess tax benefits from share-based compensation	2,138	
Distributions to noncontrolling interests	(1,150)	(1,325)
Net cash used in financing activities	(3,831)	(4,298)

Net decrease in cash and cash equivalents		(67,575)		(42,247)
Effect of exchange rates on cash and cash equivalents		(2,400)		(316)
Cash and cash equivalents at beginning of the period		466,685		372,011
Cash and cash equivalents at end of the period	$	396,710	$	329,448
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	2,387	$	2,491
Income taxes		13,459		2,419

See accompanying notes to unaudited condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015 AND 2014

(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 accounting principles generally accepted in the United States of America 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 footnotes and financial presentations normally required under accounting principles generally accepted in the United States of America 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, 2014.

The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2015.

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 and approximates fair value because of the relatively short maturity of such instruments.

The carrying amount of the Company s long-term borrowings are considered Level 2 liabilities that approximates fair value based upon current rates and terms available to the Company for similar debt.

Use of Estimates

The preparation of the condensed consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, 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 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. Wholesale sales, which include amounts billed for shipping and handling costs, are recognized net of allowances for estimated returns, sales allowances, discounts, and chargebacks. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are recorded when related revenue is recorded. Related costs paid to third-party shipping companies are recorded as cost of sales. The Company recognizes revenue from retail and e-commerce sales at the point of sale. Sales and value added taxes collected from retail customers are excluded from reported revenues.

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 as earned. In addition, the Company receives royalty payments based on actual sales of the

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licensed products. Typically, at each quarter-end the Company receives correspondence from licensees indicating the actual sales for the period. This information is used to calculate and record the related royalties based on the terms of the agreement.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) amended the FASB Accounting Standards Codification and created a new Topic ASC 606, *Revenue from Contracts with Customers* (ASC 606). This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition,* and most industry-specific guidance throughout the Industry Topics of the Codification. For annual and interim reporting periods the mandatory adoption date of ASC 606 is January 1, 2017, and there will be two methods of adoption allowed, either a full retrospective adoption or a modified retrospective adoption. The Company is currently evaluating the impact of ASC 606, but at the current time does not know what impact the new standard will have on revenue recognized and other accounting decisions in future periods, if any, nor what method of adoption will be selected if the impact is material.

In August 2014, the FASB amended the FASB Accounting Standards Codification and amended Subtopic 205-40, *Presentation of Financial Statements Going Concern.* This amendment prescribes that an entity should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will become effective for the Company s annual and interim reporting periods beginning January 1, 2017. The Company will begin evaluating going concern disclosures based on this guidance upon adoption. The Company does not expect that the adoption of this standard will have a material impact on the Company s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03 *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendment will be effective for the Company s annual and interim reporting periods beginning January 1, 2016 and should applied on a retrospective basis. The adoption of ASU 2015-03 will not have any impact on the Company s results of operations, but will result in debt issuance costs being presented as a direct reduction from the carrying amount of debt liabilities. This standard will not have a material impact on the Company s consolidated financial statements.

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

The Company and its subsidiaries had $3.9 million and $3.4 million of outstanding letters of credit as of March 31, 2015 and December 31, 2014, respectively, and approximately $0.1 million and $1.8 million in short-term borrowings as of March 31, 2015 and December 31, 2014, respectively.

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Long-term borrowings at March 31, 2015 and December 31, 2014 are as follows (in thousands):

	2015	2014
Note payable to banks, due in monthly installments of $346.6 (includes principal and interest), variable-rate interest at 3.93% per annum, secured by property, balloon payment of $77,060 due October 2015	$ 77,648	$ 77,900
Note payable to banks, due in monthly installments of $531.4 (includes principal and interest), fixed-rate interest at 3.54% per annum, secured by property, balloon payment of $12,635 due December 2015	16,500	17,940
Note payable to banks, due in monthly installments of $483.9 (includes principal and interest), fixed-rate interest at 3.19% per annum, secured by property, balloon payment of $11,670 due June 2016	17,857	19,159
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, maturity date of July 2019	1,417	1,489
Subtotal	113,422	116,488
Less current installments	99,762	101,407
Total long-term borrowings	$ 13,660	$ 15,081

(3) STOCKHOLDERS EQUITY

During the three months ended March 31, 2015, 255,522 shares of Class B common stock were converted into shares of Class A common stock. During the three months ended March 31, 2014, 10,296 shares of Class B common stock were converted into shares of Class A common stock.

The following table reconciles equity attributable to noncontrolling interests (in thousands):

	Three Months Ended March 31,	
	2015	2014
Noncontrolling interest, beginning of period	$ 58,858	$ 49,598
Net earnings attributable to noncontrolling interest	5,578	2,083
Foreign currency translation adjustment	(233)	(80)
Capital distribution to noncontrolling interests	(1,150)	(1,325)
Noncontrolling interest, end of period	$ 63,053	$ 50,276

(4) NONCONTROLLING INTERESTS

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Company s products throughout Asia or to construct the Company s domestic distribution facility. These joint ventures are variable interest entities (VIE)s under Accounting Standards Codification (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 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 variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Accordingly, the Company includes the assets and liabilities and results of operations of these entities in its consolidated financial statements, even though the Company may not hold a majority equity interest. There

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have been no changes during 2015 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):

	March 31, 2015	December 31, 2014
HF Logistics-SKX, LLC		
Current assets	$ 8,052	$ 6,812
Noncurrent assets	117,523	118,837
Total assets	$ 125,575	$ 125,649
Current liabilities	$ 79,198	$ 78,668
Noncurrent liabilities	1,118	1,194
Total liabilities	$ 80,316	$ 79,862
Distribution joint ventures (1)		
Current assets	$ 111,638	$ 94,819
Noncurrent assets	11,843	10,322
Total assets	$ 123,481	$ 105,141
Current liabilities	$ 45,619	$ 38,470
Noncurrent liabilities	64	66
Total liabilities	$ 45,683	$ 38,536

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

Net earnings attributable to noncontrolling interests was $5.6 million and $2.1 million for the three months ended March 31, 2015 and 2014, respectively, which represents the share of net earnings that is attributable to the Company s joint venture partners. HF Logistics-SKX, LLC made cash capital distributions of $1.2 million and $1.0 million during the three months ended March 31, 2015 and 2014, respectively. Skechers China Limited made capital distributions of $0.3 million during the three months ended March 31, 2014.

(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 common shares, if dilutive, which would arise from the exercise of stock options and nonvested 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. 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.

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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 March 31,	
Basic earnings per share	**2015**	**2014**
Net earnings attributable to Skechers U.S.A., Inc.	$ 56,080	$ 30,965
Weighted average common shares outstanding	50,804	50,558
Basic earnings per share attributable to Skechers U.S.A., Inc.	$ 1.10	$ 0.61

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

	Three Months Ended March 31,	
Diluted earnings per share	**2015**	**2014**
Net earnings attributable to Skechers U.S.A., Inc.	$ 56,080	$ 30,965
Weighted average common shares outstanding	50,804	50,558
Dilutive effect of stock options	339	286
Weighted average common shares outstanding	51,143	50,844
Diluted earnings per share attributable to Skechers U.S.A., Inc.	$ 1.10	$ 0.61

(6) STOCK COMPENSATION

For share-based awards the Company recognized compensation expense based on the grant date fair value. Share-based compensation expense was $4.4 million and $1.3 million for the three months ended March 31, 2015 and 2014, respectively.

A summary of the status and changes of our nonvested shares related to the Company s Equity Incentive Plans as of and for the three months ended March 31, 2015 is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2014	1,263,833	$ 43.38
Granted	7,500	68.01
Vested	(130,000)	27.54
Cancelled	0	

Nonvested at March 31, 2015	1,141,333	45.35

(7) INCOME TAXES

Income tax expense and the effective tax rate for the three months ended March 31, 2015 and 2014 were as follows (in thousands, except the effective tax rate):

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Income tax expense	$ 19,120	$ 11,437
Effective tax rate	23.7%	25.7%

The tax provision for the three months ended March 31, 2015 and 2014 was 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 ongoing effective annual tax rate in 2015 to be between 21% and 25%, which is subject to management s quarterly review and revision, if 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 months ended March 31, 2015, the decrease in the effective tax rate was primarily attributable to an increase in the amount of foreign earnings relative to domestic earnings as compared to the same period in the prior year.

As of March 31, 2015, the Company had approximately $396.7 million in cash and cash equivalents, of which $171.2 million, or 43.2%, was held outside the U.S. Of the $171.2 million held by the Company s foreign subsidiaries, approximately $51.1 million is available for repatriation to the U.S. without incurring 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 as of March 31, 2015. 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 the majority of its sales in the United States; however, several of its products are sold into various foreign countries, which subject 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 $236.1 million and $166.9 million before allowances for bad debts, sales returns and chargebacks at March 31, 2015 and December 31, 2014, respectively. Foreign accounts receivable, which in some cases are collateralized by letters of credit, were equal to $230.3 million and $126.2 million before allowance for bad debts, sales returns and chargebacks at March 31, 2015 and December 31, 2014, respectively. The Company s charges for bad debt and reserves for credit losses for the three months ended March 31, 2015 and 2014 were approximately $4.1 million and $5.1 million, respectively. The Company s credit losses attributable to write-offs for the three months ended March 31, 2015 and 2014 were $1.1 million and $3.8 million, respectively.

Assets located outside the U.S. consist primarily of cash, accounts receivable, inventory, property, plant and equipment, and other assets. Net total assets held outside the United States were $600.5 million and $548.9 million at March 31, 2015 and December 31, 2014, respectively.

The Company s net sales to its five largest customers accounted for approximately 17.1% and 17.1% of total net sales for the three months ended March 31, 2015 and 2014, respectively. No customer accounted for more than 10% of our net sales during the three months ended March 31, 2015 and 2014. No customer accounted for more than 10% of net trade receivables at March 31, 2015 or December 31, 2014.

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The Company s top five manufacturers produced the following, as a percentage of total production, for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
Manufacturer #1	34.4%	36.8%
Manufacturer #2	8.4%	5.8%
Manufacturer #3	6.9%	5.4%
Manufacturer #4	4.5%	5.3%
Manufacturer #5	4.1%	5.0%
	58.3%	58.3%

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

(9) SEGMENT AND GEOGRAPHIC REPORTING INFORMATION

The Company has four reportable segments domestic wholesale sales, international wholesale sales, retail sales, and e-commerce sales. Management evaluates segment performance based primarily on net sales and gross 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 profit, identifiable assets and additions to property and equipment for the domestic wholesale, international wholesale, retail, and the e-commerce segments on a combined basis were as follows (in thousands):

	Three Months Ended March 31,	
	2015	2014
Net sales		
Domestic wholesale	$ 321,328	$ 232,492
International wholesale	285,571	179,083
Retail	154,557	128,878
E-commerce	6,541	6,065
Total	$ 767,997	$ 546,518

	Three Months Ended March 31,	
	2015	2014

Gross profit		
Domestic wholesale	$ 125,730	$ 84,554
International wholesale	113,377	76,290
Retail	90,270	76,761
E-commerce	3,163	2,798
Total	$ 332,540	$ 240,403

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	March 31, 2015	December 31, 2014
Identifiable assets		
Domestic wholesale	$ 964,314	$ 979,582
International wholesale	544,859	510,063
Retail	204,082	185,041
E-commerce	328	232
Total	$ 1,713,583	$ 1,674,918

	Three Months Ended March 31,	
	2015	2014
Additions to property, plant and equipment		
Domestic wholesale	$ 5,688	$ 2,006
International wholesale	3,555	1,004
Retail	5,380	8,359
Total	$ 14,623	$ 11,369

Geographic Information:

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

	Three Months Ended March 31,	
	2015	2014
Net sales (1)		
United States	$ 453,164	$ 344,654
Canada	23,242	21,684
Other international (2)	291,591	180,180
Total	$ 767,997	$ 546,518

	March 31, 2015	December 31, 2014
Property, plant and equipment		
United States	$ 332,512	$ 332,383
Canada	7,256	7,203
Other international (2)	35,818	33,597
Total	$ 375,586	$ 373,183

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

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

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(10) LITIGATION

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

In accordance with accounting principles generally accepted in the U.S., the Company records a liability in its consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings are inherently difficult to predict, particularly when the matters are in the procedural stages or with unspecified or indeterminate claims for damages, potential penalties, or fines. Accordingly, the Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the consolidated financial statements as of March 31, 2015, nor is it possible to estimate what litigation-related costs will be in the future.

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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, 2014.

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. Th 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:

international economic, political and market conditions including the uncertainty of sustained recovery in our European markets;

our ability to maintain our brand image and to anticipate, forecast, identify, and respond to changes in fashion trends, consumer demand for the products and other market factors;

our ability to remain competitive among sellers of footwear for consumers, including in the highly competitive performance footwear market;

our ability to sustain, manage and forecast our costs and proper inventory levels;

the loss of any significant customers, decreased demand by industry retailers and the cancellation of order commitments;

our ability to continue to manufacture and ship our products that are sourced in China, which could be adversely affected by various economic, political or trade conditions, or a natural disaster in China;

our ability to predict our revenues, which have varied significantly in the past and can be expected to fluctuate in the future due to a number of reasons, many of which are beyond our control;

- 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, 2014 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.

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FINANCIAL OVERVIEW

Our net sales for the three months ended March 31, 2015 were $768.0 million, an increase of $221.5 million, or 40.5%, as compared to net sales of $546.5 million for the three months ended March 31, 2014, which was attributable to increased sales across several key divisions including Women s GO, Sport Active, Girls, Women s Sport, and Men s Sport divisions. Gross margins decreased to 43.3% for the three months ended March 31, 2015 from 44.0% for the same period in the prior year, which was primarily attributable to the negative impact of foreign currency exchange rates due to the stronger U.S. dollar during the period. Net earnings attributable to Skechers U.S.A., Inc. were $56.1 million for the three months ended March 31, 2015, an increase of $25.1 million, or 81.1%, compared to net earnings of $31.0 million in the prior-year period. Diluted net earnings per share attributable to Skechers U.S.A., Inc. for the three months ended March 31, 2015 was $1.10, which reflected a 80.0% increase from the $0.61 diluted earnings per share reported in the prior-year period. Earnings from operations attributable to Skechers U.S.A., increased $40.0 million to $88.2 million, or 11.5% of net sales, for the three months ended March 31, 2015 from $48.2 million, or 8.8% of net sales, for the same period in 2014. The increase in net earnings attributable to Skechers U.S.A., Inc. for three months ended March 31, 2015 was primarily the result of increased sales across all our business segments following the introduction of new products. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2015.

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

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

	Three Months Ended March 31, 2015	2014
Percentage of revenues by segment:		
Domestic wholesale	41.8%	42.5%
International wholesale	37.2%	32.8%
Retail	20.1%	23.6%
E-commerce	0.9%	1.1%
Total	100.0%	100.0%

As of March 31, 2015, we owned and operated 453 stores, which includes 365 domestic retail stores and 88 international retail stores. We believe we have established our presence in what we believe to be most of the major domestic retail markets. During the first three months of 2015, we opened two domestic outlet stores, three domestic warehouse stores, and one international outlet store. In addition, we closed one domestic concept store and one domestic outlet store. 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 2015, 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, (iv) strategically expanding our retail distribution channel by opening another 45 to 55 stores, of which 10 to 15 are expected to be opened during the second quarter of 2015 and (v) substantially completing the equipment upgrades to both our European Distribution Center and Rancho Belago distribution center to increase our capacity and efficiency and to better manage our growth worldwide.

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RESULTS OF OPERATIONS

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

	Three Months Ended March 31, 2015		2014	
Net sales	$ 767,997	100.0%	$ 546,518	100.0%
Cost of sales	435,457	56.7	306,115	56.0
Gross profit	332,540	43.3	240,403	44.0
Royalty income	1,882	0.2	3,022	0.5
	334,422	43.5	243,425	44.5
Operating expenses:				
Selling	49,092	6.4	36,742	6.7
General and administrative	197,141	25.6	158,523	29.0
	246,233	32.0	195,265	35.7
Earnings from operations	88,189	11.5	48,160	8.8
Interest income	186	0.0	103	0.0
Interest expense	(2,836)	(0.4)	(2,696)	(0.5)
Other, net	(4,761)	(0.6)	(1,082)	(0.2)
Earnings before income tax expense	80,778	10.5	44,485	8.1
Income tax expense	19,120	2.5	11,437	2.1
Net earnings	61,658	8.0	33,048	6.0
Less: Net earnings attributable to noncontrolling interests	5,578	0.7	2,083	0.3
Net earnings attributable to Skechers U.S.A., Inc.	$ 56,080	7.3%	$ 30,965	5.7%

THREE MONTHS ENDED MARCH 31, 2015 COMPARED TO THREE MONTHS ENDED MARCH 31, 2014

Net sales

Net sales for the three months ended March 31, 2015 were $768.0 million, an increase of $221.5 million, or 40.5%, as compared to net sales of $546.5 million for the three months ended March 31, 2014. The increase in net sales was broad based and attributable to higher sales in our domestic wholesale sales segment, international wholesale sales segment and our retail sales segment primarily due to the introduction of new styles and lines of footwear.

Our domestic wholesale net sales increased $88.8 million, or 38.2%, to $321.3 million for the three months ended March 31, 2015 from $232.5 million for the three months ended March 31, 2014. The increase in our domestic wholesale segment was attributable to strong sales and significant growth in several key divisions including Women s GO, Sport Active, Girls, Women s Sport, and Men s Sport divisions. The average selling price per pair within the domestic wholesale sales segment increased $1.27 to $22.86 per pair for the three months ended March 31, 2015 from $21.59 per pair for the same period last year, which was attributable to variation in product mix with sales of more products with higher average selling prices. The increase in the domestic wholesale segment s net sales came on a 30.5% unit sales volume increase to 14.1 million pairs for the three months ended March 31, 2015 from 10.8 million pairs for the same period in 2014.

Our international wholesale sales segment sales increased $106.5 million, or 59.5%, to $285.6 million for the three months ended March 31, 2015 compared to sales of $179.1 million for the three months ended March 31, 2014. Our international wholesale sales consist of direct subsidiary sales those we make to department stores and specialty retailers and sales to our distributors, who in turn sell to retailers in various international regions where we do not sell directly. Direct subsidiary sales increased $81.1 million, or 58.5%, to $219.8 million for the three months ended March 31, 2015 compared to net sales of $138.7 million for the three months ended March 31, 2014. The largest sales increases during the quarter came from our subsidiaries in Germany, the United Kingdom, Italy, Switzerland, and our joint venture in China, primarily due to increased sales in our Women s Sport, Women s GO, and Sport Active divisions. Our distributor sales increased $25.3 million to $65.6 million for the three months ended March 31, 2015, a 62.7% increase from sales of $40.3 million for the three months ended March 31, 2014. The largest sales increases during the quarter came from sales to our distributors in the United Arab Emirates (UAE), Taiwan, Turkey, and Australia and New Zealand, primarily due to increased sales in our Women s Active, Women s GO, and Men s USA divisions.

Our retail segment sales increased $25.7 million to $154.6 million for the three months ended March 31, 2015, a 19.9% increase over sales of $128.9 million for the three months ended March 31, 2014. The increase in retail sales was primarily attributable to increased comparable store sales of 9.3% resulting from increased sales of our Men s Sport, Men s USA, Women s Active and Women s GO divisions, and a net increase of 36 domestic and 18 international stores compared to the same period in 2014. For the three months ended March 31, 2015, our domestic retail sales increased 18.1% compared to the same period in 2014, which was primarily attributable to increased store count and positive comparable domestic store sales of 8.3%. Our international retail store sales increased 28.5% compared to the same period in 2014, which was primarily attributable to increased international store count and positive comparable international store sales of 14.8%. During the three months ended March 31, 2015, we opened two domestic outlet stores, three domestic warehouse stores, and one international outlet store, and we closed one domestic concept store and one domestic outlet store.

Our e-commerce sales increased $0.4 million, or 7.9%, to $6.5 million for the three months ended March 31, 2015 compared to $6.1 million for the three months ended March 31, 2014. Our e-commerce sales made up approximately 0.9% and 1.1% of our consolidated net sales for the three months ended March 31, 2015 and 2014, respectively.

Gross profit

Gross profit for the three months ended March 31, 2015 increased $92.1 million to $332.5 million as compared to $240.4 million for the three months ended March 31, 2014. Gross profit as a percentage of net sales, or gross margin, decreased to 43.3% for the three months ended March 31, 2015 from 44.0% for the same period in the prior year. Our domestic wholesale sales segment gross profit increased $41.1 million to $125.7 million for the three months ended March 31, 2015 compared to $84.6 million for the three months ended March 31, 2014. Domestic wholesale margins increased to 39.1% in the three months ended March 31, 2015 from 36.4% for the same period in the prior year. The increase in domestic wholesale margins was attributable to increased sales of our Women s Active, Women s GO, Men s Sport and Girls footwear, which had higher average selling prices and margins.

Gross profit for our international wholesale segment increased $37.1 million, or 48.6%, to $113.4 million for the three months ended March 31, 2015 compared to $76.3 million for the three months ended March 31, 2014. International wholesale gross margins were 39.7% for the three months ended March 31, 2015 compared to 42.6% for the three months ended March 31, 2014. Gross margins for our direct subsidiary sales decreased to 43.6% for the three months ended March 31, 2015 as compared to 47.1% for the three months ended March 31, 2014. The decrease in gross margins for our direct subsidiary segment was primarily attributable to the effect of negative foreign currency exchange rates from a strengthening U.S. dollar during the period. Gross margins for our distributor sales were 26.7% for the three months ended March 31, 2015 as compared to 27.1% for the three months ended March 31, 2014. This decrease in gross margin for our distributor sales was primarily attributable to increased sales of our lower margin Kids footwear.

Gross profit for our retail sales segment increased $13.5 million, or 17.6%, to $90.3 million for the three months ended March 31, 2015 as compared to $76.8 million for the three months ended March 31, 2014. Gross margins for all company-owned domestic and international stores were 58.4% for the three months ended March 31, 2015 as compared to 59.6% for the three months ended March 31, 2014. Gross margins for our domestic stores were 60.0% and 61.0% for the three months ended March 31, 2015 and 2014, respectively. Gross margins for our international stores were 51.8% for the three months ended March 31, 2015 as compared to 52.9% for the three months ended March 31, 2014. The decrease in domestic retail margins was primarily attributable to increased discounts on seasonal products with slightly lower margins when compared to the same period in the prior year. The decrease in international retail margins was attributable to the effect of negative foreign currency exchange rates due to a strengthening U.S. dollar during the period.

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 $12.4 million, or 33.6%, to $49.1 million for the three months ended March 31, 2015 from $36.7 million for the three months ended March 31, 2014. As a percentage of net sales, selling expenses were 6.4% and 6.7% for the three months ended March 31, 2015 and 2014, respectively. The increase in selling expenses was primarily attributable to higher advertising expenses of $11.3 million and higher sales commissions of $1.1 million due to increased net sales for the three months ended March 31, 2015.

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 $38.6 million, or 24.4%, to $197.1 million for the three months ended March 31, 2015 from $158.5 million for the three months ended March 31, 2014. As a percentage of sales, general and administrative expenses were 25.6% and 29.0% for the three months ended March 31, 2015 and 2014, respectively. The $38.6 million increase in general and administrative expenses was primarily attributable to $15.8 million of increased expenses related to our international operations, which included increased temporary help of $7.3 million primarily at our European Distribution Center from the implementation of our new automated equipment. In addition, we had $7.6 million of increased operating expenses attributable to operating an additional 54 stores since March 31, 2014. The expenses related to our distribution network, including purchasing, receiving, inspecting, allocating, warehousing and packaging of our products, increased $16.7 million to $48.8 million for the three months ended March 31, 2015 as compared to $32.1 million for the same period in the prior year. The increase in warehousing costs was primarily due to increased costs related to the transition of our new automated equipment at our European Distribution Center combined with increased sales volumes worldwide.

General and administrative expenses consist primarily of the following: salaries, wages and related taxes and various overhead costs associated with our corporate staff, share-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 costs are included in general and administrative expenses and are not allocated to segments.

Other income (expense)

Interest income was $0.2 million and $0.1 million for the three months ended March 31, 2015 and 2014, respectively. Interest expense increased $0.1 million to $2.8 million for the three months ended March 31, 2015 compared to $2.7 million for the same period in 2014. The increase was primarily attributable to increased interest paid to our foreign manufacturers which was offset by lower interest paid on loans for our domestic distribution center equipment. Other, net expense increased $3.7 million to $4.8 million for the three months ended March 31, 2015 as compared to other expense of $1.1 million for the same period in 2014. The increase in other expense was primarily attributable to foreign currency exchange loss of $4.9 million for the three months ended

March 31, 2015, as compared to a foreign currency exchange loss of $1.0 million for the three months ended March 31, 2014, respectively. The increased foreign currency exchange loss was primarily attributable to a stronger U.S. dollar.

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Income taxes

Income tax expense and the effective tax rate for the three months ended March 31, 2015 and 2014 were as follows (in thousands, except the effective tax rate):

	Three Months Ended March 31,	
	2015	**2014**
Income tax expense	$ 19,120	$ 11,437
Effective tax rate	23.7%	25.7%

The tax provision for the three months ended March 31, 2015 and 2014 was computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. We estimate our ongoing effective annual tax rate in 2015 to be between 21% and 25%, which is subject to management s quarterly review and revision, if 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 is generally significantly lower than the U.S. federal and state combined statutory rate of approximately 39%. For the three months ended March 31, 2015, the decrease in the effective tax rate was primarily attributable to an increase in the amount of foreign earnings relative to domestic earnings as compared to the same period in the prior year.

As of March 31, 2015, we had approximately $396.7 million in cash and cash equivalents, of which $171.2 million, or 43.2%, was held outside the U.S. Of the $171.2 million held by our foreign subsidiaries, approximately $51.1 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable foreign income and withholding taxes in excess of the amounts accrued in our condensed consolidated financial statements as of March 31, 2015. 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.

Noncontrolling interests in net income and loss of consolidated subsidiaries

Net earnings attributable to noncontrolling interests for the three months ended March 31, 2015 increased $3.5 million to $5.6 million as compared to $2.1 million for the same period in 2014 primarily attributable to increased profitability of our joint ventures. Noncontrolling interests represents the share of net earnings that is attributable to our joint venture partners.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our working capital at March 31, 2015 was $832.9 million, an increase of $53.6 million from working capital of $779.3 million at December 31, 2014. Our cash and cash equivalents at March 31, 2015 were $396.7 million compared to $466.7 million at December 31, 2014. The decrease in cash and cash equivalents of $70.0 million was primarily the result of increased receivables of $175.5 million, decreased accounts payable of $30.3 million, and capital expenditures of $14.6 million partially offset by our net earnings of $61.7 million, depreciation of property, plant and equipment of $13.3 million and decreased inventories of $59.2 million. Our primary sources of operating cash flows are customer collections and retail sales collections. Our primary uses of cash are inventory purchases, selling, general and administrative expenses, capital expenditures and debt service payments.

For the three months ended March 31, 2015, net cash used in operating activities was $48.4 million as compared to $26.6 million for the three months ended March 31, 2014. On a comparative year-to-year basis, the $21.8 million increase in cash flows used in operating activities for the three months ended March 31, 2015, primarily resulted from an increase in accounts receivable balances of $86.1 million from increased sales volumes when compared to cash used in operating activities for the three months ended March 31, 2014. The increase in accounts receivable balances were partially offset by increased net earnings of $28.6 million, a $13.7 million larger decrease in inventories and a $12.9 million smaller decrease in accounts payable balances during the three months ended March 31, 2015 as compared to the three months ended March 31, 2014.

Net cash used in investing activities was $15.3 million for the three months ended March 31, 2015 as compared to $11.4 million for the three months ended March 31, 2014. The increase in net cash used in investing activities for the three months ended March 31, 2015 as compared to the same period in the prior year was primarily the result of higher capital expenditures of $3.3 million. Capital expenditures primarily consisted of $7.6 million for several new store openings and remodels, and $3.3 million for equipment costs for increased automation for our domestic distribution center. This was compared to capital expenditures of $11.4 million for the three months ended March 31, 2014, which consisted of new store openings and remodels and $2.0 million related to a property purchase for potential future corporate development. Excluding the costs of upgrading our European Distribution Center and Ranch Belago distribution center, we expect our capital expenditures through 2015 to be approximately $35 million to $40 million, which includes opening an additional 45 to 55 retail stores, several store remodels and a property purchase for potential future corporate development. We are currently in the process of upgrading the equipment for our European Distribution Center and estimate the cost of this equipment upgrade to be approximately $24.0 million, of which approximately $13.4 million has been incurred as of March 31, 2015. In addition, we are currently in the process upgrading our equipment in our Rancho Belago distribution center and estimate the cost of this equipment upgrade to be approximately $17.0 million, of which $5.9 has been incurred as of March 31, 2015. We expect to complete both equipment upgrades by early 2016 and to fund these upgrades through existing cash balances and cash from operations.

Net cash used in financing activities was $3.8 million during the three months ended March 31, 2015 compared to $4.3 million during the three months ended March 31, 2014. The decrease in cash used in financing activities in the three months ended March 31, 2015 as compared to the same period in the prior year is primarily attributable to an increase in the excess tax benefit from share-based compensation offset by payments on short-term borrowings.

Sources of Liquidity

On April 30, 2010, we entered into a construction loan agreement (the Loan Agreement), by and among HF Logistics-SKX T1, LLC, a wholly-owned subsidiary of the JV (HF-T1), Bank of America, N.A. and Raymond James Bank, FSB. Borrowings made pursuant to the Loan Agreement were up to a maximum limit of $55.0 million (the Loan), which were used to construct our domestic distribution center in Rancho Belago, California. Borrowings bore interest based on LIBOR, and the Loan Agreement s original maturity date was April 30, 2012, which was extended to November 30, 2012. On November 16, 2012, HF-T1 executed a modification to the Loan Agreement (the Modification), which increased the borrowings under the Loan to $80.0 million and extended the maturity date of the Loan to October 30, 2015. Under the Modification, OneWest Bank, FSB is an additional lender that funded in part the increase to the Loan, and the interest rate on the Loan is the daily British Bankers Association LIBOR rate plus a margin of 3.75%, which is no longer subject to a minimum rate. The Loan Agreement and the Modification are subject to customary covenants and events of default. We were in compliance with all debt covenant provisions related to the Loan Agreement as of the date of this quarterly report. We had $77.6 million outstanding under the Loan Agreement and the Modification, which is included in current installments of long-term borrowings as of March 31, 2015. We paid commitment fees of $0.6 million on the Modification, which are being amortized to interest expense over the three-year life of the Modification.

On December 29, 2010, we entered into a master loan and security agreement (the Master Agreement), by and between us and Banc of America Leasing & Capital, LLC, and an Equipment Security Note (together with the Master Agreement, the Loan Documents), by and among us, Banc of America Leasing & Capital, LLC, and Bank of Utah, as agent (Agent). The Note entered into on the same date as the Master Agreement represents a borrowing of approximately $39.3 million. Interest accrues at a fixed rate of 3.54% per annum. On June 30, 2011, we entered into another Note agreement for approximately $36.3 million. Interest accrues at a fixed rate of 3.19% per annum. As of March 31, 2015, an aggregate of $34.4 million was outstanding under the Notes, of which $12.5 million is included in long-term borrowings and $21.8 million is included in short-term borrowings. We paid commitment fees of $0.8 million on this loan, which are being amortized to interest expense over the five-year life of the Notes.

On June 30, 2009, we entered into a $250.0 million secured credit agreement, (the Credit Agreement) with a syndicate of banks, of which six currently remain as participants. On November 5, 2009, March 4, 2010, May 3, 2011, and March 31, 2014, we entered into four successive amendments to the Credit Agreement (collectively, the Amended Credit Agreement). The Amended Credit Agreement matures in June 2015. The Amended Credit Agreement permits us and certain of our subsidiaries to borrow up to $250.0 million based upon a borrowing base of eligible accounts receivable and inventory, which amount can be increased to $300.0 million at our request and upon satisfaction of certain conditions including obtaining the commitment of existing or prospective lenders willing to provide the incremental amount. Borrowings bear interest at our election based on LIBOR or a Base Rate (defined as the greatest of the base LIBOR plus 1.00%, the Federal Funds Rate plus 0.5% or one of the lenders prime rate), in each case, plus an applicable margin based on the average daily principal balance of revolving loans under the credit agreement (0.50%, 0.75% or 1.00% for Base Rate loans and 1.50%, 1.75% or 2.00% for LIBOR loans). We pay a monthly unused line of credit fee of 0.25% or 0.375% per annum, which varies based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Amended Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of $50.0 million. The Amended Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including a fixed charge coverage ratio that applies when excess availability is less than $40.0 million. In addition, the Amended Credit Agreement places limits on additional indebtedness that we are permitted to incur as well as other restrictions on certain transactions. We paid syndication and commitment fees of $6.7 million on this facility, which are being amortized over the six-year life of the facility. As of March 31, 2015, there was $0.1 million outstanding under this credit facility, which is classified as short-term borrowings in our condensed consolidated balance sheets.

As of March 31, 2015, outstanding short-term and long-term borrowings were $113.4 million, of which $34.4 million relates to notes payable for warehouse equipment for our new distribution center that are secured by the equipment and $79.0 million relates to our construction loans for our domestic distribution center. We were in compliance with all debt covenants under the Amended Credit Agreement, the Loan Agreement and the Modification, and the Loan Documents as of the date of this quarterly report.

We believe that existing cash balances, anticipated cash flows from operations, available borrowings under our secured line of credit, and current financing arrangements will be sufficient to provide us with the liquidity necessary to fund our anticipated working capital and capital requirements through at least May 31, 2016 and for the foreseeable future. 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

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international operations, costs associated with upgrading the equipment in both our European Distribution Center and Rancho Belago distribution center, 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 consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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, 2014 filed with the SEC on February 27, 2015. Our critical accounting policies and estimates did not change materially during the quarter ended March 31, 2015.

Recent Accounting Pronouncements

In May 2014, the FASB amended the FASB Accounting Standards Codification and created a new Topic 606, *Revenue from Contracts with Customers.* 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 in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition,* and most industry-specific guidance throughout the Industry Topics of the Codification. For annual and interim reporting periods the mandatory adoption date of ASC 606 is January 1, 2017, and there will be two methods of adoption allowed, either a full retrospective adoption or a modified retrospective adoption. We are currently evaluating the impact of ASC 606, but at the current time we do not know what impact the new standard will have on revenue recognized and other accounting decisions in future periods, if any, nor what method of adoption will be selected if the impact is material.

In August 2014, the FASB amended the FASB Accounting Standards Codification and amended Subtopic 205-40, *Presentation of Financial Statements Going Concern.* This amendment prescribes that an entity should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will become effective for our annual and interim reporting periods beginning January 1, 2017. We will begin evaluating going concern disclosures based on this guidance upon adoption. We do not expect that the adoption of this standard will have a material impact on our consolidated financial statements.

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In April 2015, the FASB issued ASU 2015-03 *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendment will be effective for our annual and interim reporting periods beginning January 1, 2016 and should applied on a retrospective basis. The adoption of ASU 2015-03 will not have any impact on our results of operations, but will result in debt issuance costs being presented as a direct reduction from the carrying amount of debt liabilities. This standard will not have a material impact on our consolidated financial statements.

QUARTERLY RESULTS AND SEASONALITY

While sales of footwear products have historically been seasonal in nature with the strongest 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, 2014 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 2014 and the first three months of 2015, 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not hold any derivative securities that require fair value presentation pursuant to ASC 815-25, Derivatives and Hedging.

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

Interest rate fluctuations. As of March 31, 2015 we have $0.1 million and $77.6 million of outstanding short-term and long-term borrowings, respectively subject to changes in interest rates. A 200 basis point increase in interest rates would have increased interest expense by approximately $0.2 million for the quarter ended March 31, 2015. 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 2015. The interest rate charged on our secured line of credit facility is based on the prime rate of interest, and changes in the prime rate of interest will have an effect on the interest charged on outstanding balances. As of March 31, 2015, there was $0.1 million outstanding under this credit facility.

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 those countries where we have subsidiaries or joint ventures: the United Kingdom, France, Germany, Spain, Portugal, Switzerland, Italy, Canada, Belgium, the Netherlands, Brazil, Chile, China, Hong Kong, Singapore, Malaysia, Thailand, Vietnam, India, Hungary and Japan. Our investments in foreign subsidiaries and joint ventures with a functional currency other than the U.S. dollar are generally considered long-term. Accordingly, we do not hedge these net investments. The fluctuation of foreign currencies resulted in a cumulative foreign currency translation loss of $4.4 million and a cumulative foreign currency translation gain of $0.4 million for the three months ended March 31, 2015 and 2014, respectively, that are deferred and recorded as a component of accumulated other comprehensive income in stockholders equity. A 200 basis point reduction in each of these exchange rates at March 31, 2015 would have reduced the values of our net investments by approximately $12.0 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

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effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective, at the reasonable assurance level, as of such time.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting during the three months ended March 31, 2015 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. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. 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

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

As we disclosed in previous periodic SEC filings, the FTC and Attorneys General for 44 states and the District of Columbia (SAGs) had been reviewing the claims and advertising for Shape-ups and our other toning shoe products. We also disclosed that we had been named as a defendant in multiple consumer class actions challenging our claims and advertising for our toning shoe products, including Shape-ups. On May 16, 2012, we announced that we had settled all domestic legal proceedings relating to advertising claims made in connection with the marketing of our toning shoe products. Under the terms of the global settlement without admitting any fault or liability, with no findings being made that our company had violated any law, and with no fines or penalties being imposed we made payments in the aggregate amount of $50 million to settle and finally resolve the domestic advertising class action lawsuits and related claims brought by the FTC and the SAGs. The FTC Stipulated Final Judgment was approved by the United States District Court for the Northern District of Ohio on July 12, 2012. Consent judgments in the 45 SAG actions were approved and entered by courts in those jurisdictions. On May 13, 2013, the United States District Court for the Western District of Kentucky entered an order finally approving the nationwide consumer class action settlement, and the time for any appeals from that final approval order has expired.

On November 8, 2012, we were served with a Grand Jury Subpoena (Subpoena) for documents and information relating to our past advertising claims for our toning footwear, including Shape-ups and Resistance Runners. The Subpoena was issued by a Grand Jury of the United States District Court for the Northern District of Ohio, in Cleveland, Ohio. The Subpoena seeks documents and information related to outside studies conducted on our toning footwear. This Subpoena appears to grow out of the FTC s inquiry into our claims and advertising for Shape-ups and our other toning shoe products, which we settled with the FTC, SAGs and consumer class as part of a global settlement, as set forth above. We are fully cooperating and are in the process of producing documents and other information requested in the Subpoena. The Assistant United States Attorney has informed us that neither our company nor our employees are targets at the present time. Although we do not believe this matter will have a material adverse impact on our results of operations or financial position, it is too early to predict the timing and outcome of this matter or reasonably estimate a range of potential losses, if any.

The toning footwear category, including our Shape-ups products, has also been the subject of some media attention arising from a number of consumer complaints and lawsuits alleging injury while wearing Shape-ups. We believe our products are safe and are defending ourselves from these media stories and injury lawsuits. It is too early to predict the outcome of any case or inquiry, whether there will be future personal injury cases filed, whether adverse results in any single case or in the aggregate would have a material adverse impact on our results of operations, financial position, or result in a material loss in excess of a recorded accrual and whether insurance coverage will be adequate to cover any losses.

Patty Tomlinson v. Skechers U.S.A., Inc. On January 13, 2011, Patty Tomlinson filed a lawsuit against our company in Circuit Court in Washington County, Arkansas, Case No. CV11-121-7. The complaint alleges, on her behalf and on behalf of all others similarly situated, that our advertising for Shape-ups violates Arkansas Deceptive Trade Practices Act, constitutes a breach of certain express and implied warranties, and is resulting in unjust enrichment (the *Tomlinson* action). The complaint seeks certification of a statewide class, compensatory damages, prejudgment interest, and attorneys fees and costs. On February 18, 2011, we removed the case to the United States District Court for the Western District of Arkansas, where it was pending as *Patty Tomlinson v. Skechers U.S.A., Inc.*, CV 11-05042 JLH. On March 21, 2011, Ms. Tomlinson moved to remand the action back to Arkansas state court, which motion we opposed. On May 25, 2011, the Court ordered the case remanded to Arkansas state court and denied our motion to dismiss or transfer as moot, but stayed the remand pending completion of appellate review. On September 11, 2012, the District Court lifted its stay and remanded this case to the Circuit Court of Washington County, Arkansas. On October 11, 2012, by stipulation of the parties, the state Circuit Court issued an order staying the case. On August 13, 2012, the United States District Court for the Western District of Kentucky granted preliminary approval of the nationwide consumer class action settlement in *Grabowski v. Skechers U.S.A., Inc.* Case No. 3:12-CV-00204, and *Morga v. Skechers U.S.A., Inc.*, Case No. 3:12-CV-00205 (the *Grabowski/Morga* class actions), and issued a preliminary injunction enjoining the continued prosecution of the *Tomlinson* action, among other cases. On May 13, 2013, the Court in the *Grabowski/Morga* class actions entered an order finally approving the nationwide consumer class action settlement, and the time for any appeals therefrom has expired. The settlement in the *Grabowski/Morga* class actions is expected entirely to resolve the class claims brought by the plaintiff in *Tomlinson*.

Elma Boatright and Sharon White v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group On February 15, 2012, Elma Boatright and Sharon White filed a lawsuit against our company in the United States District Court for the Western District of Kentucky, Case No. 3:12-cv-87-S. The complaint alleges, on behalf of the named plaintiffs and all others similarly situated, that our advertising for Shape-ups is false and misleading, thereby constituting a breach of contract, breach of implied and express warranties, fraud, and resulting in unjust enrichment. The complaint seeks certification of a nationwide class, compensatory damages, and attorneys fees and costs. On March 6, 2012, the named plaintiffs filed a motion to consolidate this action with *In re Skechers Toning Shoe Products Liability Litigation,* case no. 11-md-02308-TBR. On August 13, 2012, the United States District

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Court for the Western District of Kentucky granted preliminary approval of the consumer class action settlement agreement in the *Grabowski/Morga* class actions (described above), and issued a preliminary injunction enjoining the continued prosecution of this action. On May 13, 2013, the Court in the *Grabowski/Morga* class actions entered an order finally approving the nationwide consumer class action settlement, and the time for any appeals therefrom has expired. The settlement in the *Grabowski/Morga* class actions is expected entirely to resolve the class claims brought by the plaintiff in *Boatright*.

Jason Angell v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers U.S.A. Canada, Inc. On April 12, 2012, Jason Angell filed a motion to authorize the bringing of a class action in the Superior Court of Québec, District of Montréal. Petitioner Angell seeks to bring a class action on behalf of all residents of Canada (or in the alternative, all residents of Québec) who purchased Skechers Shape-ups footwear. Petitioner s motion alleges that we have marketed Shape-ups through the use of false and misleading advertisements and representations about the products ability to provide health benefits to users. The motion requests the Court s authorization to institute a class action seeking damages (including damages for bodily injury), punitive damages, and injunctive relief. Petitioner s motion was formally presented to the Court on June 29, 2012. At a mediation held on February 28, 2013, the parties reached an agreement in principle to settle the *Angell* action (as well as the *Niras* and *Dedato* actions described below) through authorization by the Québec Superior Court of a nationwide settlement class. That agreement was finalized by the parties in December 2013 and thereafter presented to the Québec Superior Court for approval. On November 5, 2014, the Court issued its formal judgment approving the settlement. Notwithstanding, if approval of the class action settlement is reversed on appeal, we cannot predict the outcome of the *Angell* action or a reasonable range of potential losses or whether the outcome of the *Angell* action would have a material adverse impact on our results of operations, financial position or result in a material loss in excess of the settlement or a recorded accrual.

Brenda Davies/Kourtney Smith v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II, and Skechers U.S.A. Canada Inc. On September 5, 2012, Brenda Davies filed a Statement of Claim in the Court of Queen s Bench in Edmonton, Alberta, on behalf of all residents of Canada who purchased Skechers Shape-ups footwear. The Statement of Claim alleges that Skechers marketed Shape-ups through the use of false and misleading advertisements and representations about the products ability to provide fitness benefits to users. The Statement of Claim seeks damages (including damages for bodily injury), restitution, punitive damages, and injunctive relief. On or about November 21, 2013, an Amended Statement of Claim was filed to substitute a new representative plaintiff, Kourtney Smith, in place of Ms. Davies and to allege substantially the same claims as in the original Statement of Claim with respect to all Skechers toning footwear sold to residents of Canada. On or about February 28, 2014, representative plaintiff Smith agreed to the terms and conditions of the settlement reached in the *Angell*, *Niras*, and *Dedato* class actions (described above and below), and agreed to discontinue the *Davies/Smith* action once the settlement in the *Angell*, *Niras*, and *Dedato* class actions is finally approved by the Court and affirmed on appeal in the event an appeal is taken. On November 5, 2014, the Québec Superior Court issued its formal judgment approving the settlement in the *Angell* class action. On January 16, 2015, the Court in the *Davies/Smith* action issued an order effectively dismissing that action. Notwithstanding, if approval of the class action settlement is reversed on appeal, we cannot predict the outcome of the *Davies/Smith* action or a reasonable range of potential losses or whether the outcome of the *Davies/Smith* action would have a material adverse impact on our results of operations, financial position or result in a material loss in excess of the settlement or a recorded accrual.

George Niras v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II, and Skechers U.S.A. Canada Inc. On September 21, 2012, George Niras filed a Statement of Claim in the Ontario Superior Court of Justice on behalf of all residents of Canada who purchased Shape-ups, Resistance Runner, Shape-ups Toners/Trainers, or Tone-ups. The Statement of Claim alleges that Skechers marketed these toning shoes through the use of false and misleading advertisements and representations about the products ability to provide health benefits to users. The Statement seeks damages, restitution, punitive damages, and injunctive relief. Skechers has not yet responded to the Statement. At a mediation held on February 28, 2013, the parties reached an agreement in principle to settle the *Niras* action (as well as the *Angell* action described above and the *Dedato* action described below) through authorization by the Québec Superior Court of a nationwide settlement class. That agreement was finalized by the parties in December 2013 and thereafter presented to the Québec Superior Court for approval. On November 5, 2014, the Québec Superior Court issued its formal judgment approving the settlement. On November 20, 2014, the Ontario Superior Court issued an order effectively dismissing the *Niras* action. Notwithstanding, if approval of the class action

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settlement is reversed on appeal, we cannot predict the outcome of the *Niras* action or a reasonable range of potential losses or whether the outcome of the *Niras* action would have a material adverse impact on our results of operations, financial position or result in a material loss in excess of the settlement or a recorded accrual.

Frank Dedato v. Skechers U.S.A., Inc. and Skechers U.S.A. Canada, Inc. On or about November 5, 2012, Frank Dedato filed a Statement of Claim in Ontario Superior Court of Justice on behalf of all residents of Canada who purchased Shape-ups, Tone-ups or Resistance Runner footwear. The Statement of Claim alleges that Skechers has allegedly made misleading statements about its footwear products ability to provide fitness benefits to users. The Statement of Claim seeks damages, restitution, punitive damages, and injunctive relief. Skechers has not yet responded to the Statement of Claim. At a mediation held on February 28, 2013, the parties reached an agreement in principle to settle the *Dedato* action (as well as the *Angell* and *Niras* actions described above) through authorization by the Québec Superior Court of a nationwide settlement class. That agreement was finalized by the parties in December 2013 and thereafter presented to the Québec Superior Court for approval. On November 5, 2014, the Québec Superior Court issued its formal judgment approving the settlement. On November 19, 2014, the Ontario Superior Court in issued an order effectively dismissing the *Dedato* action. Notwithstanding, if approval of the class action settlement is reversed on appeal, we cannot predict the outcome of the *Dedato* action or a reasonable range of potential losses or whether the outcome of the *Dedato* action would have a material adverse impact on our results of operations, financial position or result in a material loss in excess of the settlement or a recorded accrual.

Susan Cooper et al. v. Ontrea Inc. et al. On October 22, 2014, the Company was named as a third-party defendant in a lawsuit pending in the Court of Queen s Bench in Calgary, Alberta, Case No. 1301 10673. The third party notice asserts claims for indemnification and contribution arising from injuries plaintiff allegedly sustained as a result of wearing Shape-ups shoes. The class action settlement in the *Angell* action, described above, is expected to resolve the *Cooper* action. However, if approval of the class action settlement is reversed on appeal, we cannot predict the outcome of the *Cooper* action or a reasonable range of potential losses or whether the outcome of the *Cooper* action would have a material adverse impact on our results of operations, financial position or result in a material loss in excess of the settlement or a recorded accrual.

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 1,201 currently 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 1,121 personal injury cases have been filed in or transferred to the MDL proceeding and 414 additional individuals have submitted claims by plaintiff fact sheets. The Company has resolved 432 personal injury claims in the MDL proceedings, comprised of 62 that were filed as formal actions and 370 that were submitted by plaintiff fact sheets. Skechers has also settled 8 claims in principle 6 filed cases and 2 claims submitted by plaintiff fact sheets and anticipates that those settlements will be finalized in the near term. Thirty-eight 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. The MDL currently encompasses 1,021 personal injury cases (which include the claims of 976 individuals who filed court approved questionnaires) and 4 claims submitted by plaintiff fact sheets. Under a mediation procedure authorized by the District Court, a total of 2,353 settlement questionnaires were submitted by persons who had yet to file a lawsuit or who were already participants in the MDL or related coordinated proceedings pending in California state court (described in greater detail below). Mediations were held on October 4, 2014 and December 16, 2014, but no settlements were reached. On December 29, 2014, the District Court ordered that a total of sixty cases be selected by the parties for staggered, accelerated discovery and then either be remanded to their originating districts or set for trial. The sixty cases were selected in January 2015 and both written and deposition discovery is proceeding. Four of the 60 accelerated cases have been voluntarily dismissed, and the Company expects two additional voluntary dismissals will be filed in the near term. To the extent that the remaining 54 accelerated cases are not resolved by dispositive motions or otherwise, trials are expected to be set for dates in early to mid-2016.

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 71 personal injury actions filed in various Superior Courts of the State of California that were brought on behalf of 914 individual plaintiffs (360 of whom also submitted MDL court-approved questionnaires for mediation purposes in the MDL proceeding). Of those cases, 67 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. Four of the actions originally filed as LASC cases, brought on behalf of a total of 6 plaintiffs, have been dismissed. The claims of 44 additional plaintiffs have been dismissed entirely from certain of the lawsuits, either voluntarily, on motion by Skechers, or pursuant to a settlement agreement. The claims of 21 additional persons have been dismissed in part, either voluntarily or on motions by Skechers. Thus, the LASC Coordinated Cases currently involve 67 pending personal injury lawsuits brought on behalf of a total of 864 plaintiffs. On March 12, 2014, the Superior Court selected twelve plaintiffs as bellwether cases to be set for one or more trials starting in March 2015. To date, extensive written discovery and document productions have taken place in the LASC cases. Over twenty fact witness depositions have been taken (all of which were cross-noticed in the MDL), as have eight expert depositions. Two of the bellwether cases have settled and one bellwether plaintiff dismissed her action after Skechers filed a motion for summary judgment. On January 7, 2015, the Court vacated the March 2015 initial bellwether trial date and granted Skechers motions for summary adjudication in five bellwether cases with respect to those plaintiffs advertising-related claims, including their claims for breach of warranty, fraud, and violations of consumer protection laws. On February 25, 2015, the Court granted Skechers motions for summary adjudication in the four remaining bellwether cases with respect to those plaintiffs advertising-related claims, including their claims for breach of warranty, fraud, and violations of consumer protection laws; the Court also granted Skechers summary adjudication motions as to two of the four plaintiffs products liability claims for an alleged failure to warn, and took under submission the portion of Skechers motions seeking summary adjudication of all four plaintiffs products liability claims for alleged design defects. The Court also set trial dates of October 26, 2015 and January 25, 2016 for the first two bellwether cases, but deferred selection of the specific individual bellwether plaintiff to go forward on each of those two dates to a later time.

In other state courts, a total of 123 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. Ten of those actions have been resolved and dismissed. The remaining 113 actions include the claims of 680 plaintiffs, 671 of whom had submitted court-approved settlement questionnaires in the MDL. Twenty-three of those personal injury actions have been removed to various federal courts and are expected to be transferred to the MDL in the near term. It is further expected that removal petitions and requests for transfer to the MDL will be filed for the other 90 state court personal injury actions. No discovery has taken place in these actions. A trial date of January 4, 2016, has been set in one action currently pending in Missouri state-court. No other trial dates have been set.

The personal injury cases in the MDL and LASC Coordinated Cases and in other state courts are in many instances solicited and handled by the same plaintiffs law firms. It is too early to predict the outcome of any case, whether there will be future personal injury cases filed, 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. Notwithstanding, we believe we have meritorious defenses, vehemently deny the allegations and intend to defend each of these cases vigorously.

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. Fact discovery in the ITC proceedings closed on April 10, 2015, and expert discovery is scheduled to close on May 29, 2015. Trial before the ITC is scheduled to commence on August 3, 2015. 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.

Deckers Outdoor Corporation v. Skechers U.S.A., Inc. On November 20, 2014, Deckers filed an action against our company in the United States District Court for the Central District of California, Case 2:14-cv-08988-SJO-FFM, alleging trademark infringement, patent infringement, trade dress infringement, and unfair competition arising out of our alleged use of certain names and design elements. The complaint seeks, among other things, injunctive relief, an accounting of profits, compensatory damages, statutory, treble and punitive damages, costs and attorneys fees. 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.

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, 2014 and should be read in conjunction with the risk factors and other information disclosed in our 2014 annual report that could have a material effect on our business, financial condition and results of operations.

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

During the three months ended March 31, 2015 and 2014, our net sales to our five largest customers accounted for approximately 17.1% and 17.1% of total net sales, respectively. No customer accounted for more than 10% of our net sales during the three months ended March 31, 2015 or 2014. No customer accounted for more than 10% of outstanding accounts receivable balance at March 31, 2015 or December 31, 2014. 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.

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

Our footwear products are currently manufactured by independent contract manufacturers. During the three months ended March 31, 2015 and 2014, the top five manufacturers of our manufactured products produced approximately 58.3% and 58.3% of our total purchases, respectively. One manufacturer accounted for 34.4% of total purchases for the three months ended March 31, 2015, and the same manufacturer accounted for 36.8% of total purchases for the same period in 2014. 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.

The Success Of Our Business Depends On The Proper Operation, Development And Expansion Of Our Domestic And European Distribution Centers.

We distribute our products to our customers and retail stores primarily through our two distribution centers located in Rancho Belago, California and Liege, Belgium, and to a lesser extent, directly from our manufacturers. Our ability to meet customer expectations, manage inventory, complete sales, and achieve objectives for operating efficiencies and growth depends on the proper operation of our distribution centers, the development or expansion of additional distribution capabilities, and the timely performance of services by third parties (including those involved in shipping product to and from our distribution centers). We are currently in the process of upgrading the equipment at both of our distribution centers for the purposes of expansion and automation, which entails risks that could cause delays, such as shortages of materials, shortages of skilled labor or work stoppages, unforeseen construction, scheduling, engineering, environmental or geological problems, weather interference, and fires or other casualty losses. Any such delays could cause the actual completion dates of these projects to differ significantly from the expected completion dates, which could disrupt the timely distribution of our products in North America and/or Europe. Our distribution centers could also be interrupted by information technology problems and disasters such as earthquakes or fires. Any significant failure in our distribution centers could have a material adverse effect on our business, results of operations and financial condition.

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

As of March 31, 2015, our Chairman of the Board and CEO, Robert Greenberg, beneficially owned 46.5% of our outstanding Class B common shares, members of Mr. Greenberg s immediate family beneficially owned an additional 12.5% 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 40.3% 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 March 31, 2015, Mr. Greenberg beneficially owned 33.3% 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 42.6% of the aggregate number of votes eligible to be cast by our stockholders, and Mr. Schwartzberg beneficially owned 28.6% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Mr. Greenberg and Mr. 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. Mr. Greenberg s and/or Mr. Schwartzberg s interests may differ from the interests of the other stockholders. Each of them has an ability to significantly influence or substantially control actions requiring stockholder approval, which 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.

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ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Lease Agreement dated October 17, 2014 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II BVBA, regarding ProLogis Park Liege Distribution Center III in Liege, Belgium.
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.

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SIGNATURES

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

Date: May 8, 2015	SKECHERS U.S.A., INC.
	By: /S/ DAVID WEINBERG David Weinberg Chief Financial Officer

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