ERICSSON LM TELEPHONE CO
Form 20-F
April 21, 2010
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 20-F

¨ **Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934**

**or**

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the Fiscal Year Ended December 31, 2009**

**or**

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from/to**

**or**

¨ **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**Date of event requiring this shell company report:**

**Commission file number 000 12033**

# TELEFONAKTIEBOLAGET LM ERICSSON

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

# LM ERICSSON TELEPHONE COMPANY

**(Translation of Registrant s Name Into English)**

**Kingdom of Sweden**

**(Jurisdiction of Incorporation or Organization)**

**SE-164 83 Stockholm, Sweden**

**(Address of Principal Executive Offices)**

**Roland Hagman, Vice President Group Function Financial Control**

**Telephone: +46 8 719 53 80, Facsimile: +46 8 719 42 22**

**SE-164 83 Stockholm, Sweden**

**(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)**

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| American Depositary Shares | **The NASDAQ Stock Market LLC** |
| B Shares* | **The NASDAQ Stock Market LLC** |

* Not for trading, but only in connection with the registration of the American Depositary Shares representing such B Shares pursuant to the requirements of the Securities and Exchange Commission

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

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the Annual Report:

| | |
|---|---|
| B shares (SEK 5.00 nominal value) | 3,011,595,752 |
| A shares (SEK 5.00 nominal value) | 261,755,983 |
| C shares (SEK 1.00 nominal value) | 0 |

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board x Other ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 x Item 18 ¨

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

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## 2009 MILESTONES

### JANUARY-MARCH

Verizon Wireless chose Ericsson as one of two primary suppliers to build its LTE network infrastructure. Verizon Wireless will be the first operator to offer commercial LTE services in the United States. Later in the year, Metro-PCS chose Ericsson as the sole supplier of its LTE network buildout. Both operators are new Ericsson customers.

China Unicom selected Ericsson to supply 3G networks and services for 15 Chinese provinces and to upgrade its GSM networks to support 2G/3G interoperability in 10 provinces.

The ST-Ericsson joint venture was launched as a leading supplier of semiconductors and platforms for mobile devices to four of the top five handset manufacturers.

With Ericsson as its partner for mobile learning, the BBC World Service Trust uses the creative power of media to reduce poverty and promote human rights in Bangladesh. The Financial Times reported that more than 300,000 people had already signed up to learn English over their mobile phones.

### APRIL-JUNE

In the first agreement of its kind in Africa, leading mobile operator Zain awarded Ericsson the management responsibility for more than 4,000 sites across Nigeria, including network operations, field operations and business support systems.

In support of the initiative Caring for Climate of the UN Global Compact, Ericsson s CEO Carl-Henric Svanberg addressed the UN Secretary General Ban-Ki Moon during the World Business Summit on Climate Change. The message was that a modernized telecommunications infrastructure can significantly contribute to the creation of a carbon-lean economy.

The world s largest upgrade of a live mobile network was accomplished at a record pace for Vodafone Essar in India. Ericsson replaced more than 10,500 of the operator s GSM radio sites in just 13 months, reaching a peak rate of one site every minute and without disrupting service to more than 13 million subscribers.

### JULY-SEPTEMBER

Ericsson s first major services contract in North America is also the world s largest, valued at USD 4.5 5 billion over seven years. Operator Sprint and its 50 million customers benefit from Ericsson s leadership and best-in-class economies of scale in network services.

Ericsson signed framework agreements worth USD 1.7 billion for 2G/3G mobile communication equipment and related services for 2009 with two major Chinese telecom operators: China Mobile and China Unicom.

All three telecom operators in China selected Ericsson to provide fixed broadband access to millions of consumers in nine provinces.

Ericsson was selected by AT&T as one of two domain suppliers of wireline access products and services. This breakthrough win for Ericsson in North America significantly accelerates AT&T s ability to bring new broadband services to the market.

**OCTOBER-DECEMBER**

With the acquisition of Nortel s CDMA and LTE business, Ericsson became the largest supplier of infrastructure and services in North America, based on Ericsson reported sales and publicly reported sales and estimated sales for Ericsson s main competitors.

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Shipments of Ericsson s mobile broadband modules almost reached 1.5 million units. Asus, the inventor of the netbook, started to use Ericsson s embedded modules and Ericsson is now a supplier to 3 of the top 5 PC manufacturers.

Ericsson announced low-cost mobile broadband for the world s three billion GSM subscribers through a software upgrade. The EDGE evolution upgrade lets people enjoy the benefits of 3G performance a great opportunity in countries where the mobile phone is the most affordable way to access the internet.

Swedish TV network TV4 outsourced the operation of its nationwide playout services. Addressing the broadcasting industry substantially expands Ericsson s opportunities not only for managed services, but also for the multimedia product portfolio.

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## 2009 SNAPSHOT

### THIS IS ERICSSON

Founded in 1876, Ericsson is a leading provider of communications networks, related services and multimedia solutions. Through our joint ventures ST-Ericsson and Sony Ericsson, we are also a major provider of handsets. Our experience building networks in more than 175 countries gives us unique customer and consumer insights, and our extensive portfolio of telecommunications solutions and intellectual property (patents) offer a true business advantage. We are committed to working with our customers and partners to expand the borders of telecommunications for the benefit of people everywhere.

Our operations have been divided into segments that create competitive advantage and best meet the needs of our global customer base.

**NETWORKS**

Technology leadership, a broad product portfolio and scale enable Ericsson to excel in meeting the coverage, capacity and network evolution needs of fixed and mobile operators. We provide products for all major standards as well as all essential elements of a network on an end-to-end solutions basis.

**SERVICES**

Expertise in network design, rollout, integration, operation and customer support, combined with a global structure and robust local capabilities, enables us to understand and respond to the unique challenges of each customer. As a result we are able to capitalize on the trend for operators to outsource a broader range of activities.

**MULTIMEDIA**

Innovative application platforms, service delivery and revenue management solutions, combined with leading content developer and application provider relationships, enable Ericsson to help customers create exciting and differentiating multimedia services.

**SONY ERICSSON**

The complementary strength of Sony Ericsson further enhances our consumer perspective for superior end-to-end offerings. Sony Ericsson offers exciting consumer experience through phones, accessories, content and applications.

**ST-ERICSSON**

ST-Ericsson represents the link between infrastructure and handsets in Ericsson s offering. They provide a market-leading portfolio of wireless platforms and semiconductors.

**Performance**

In a progressively more challenging environment during the year, Ericsson s market shares were well maintained, adjusted operating margin[1] was slightly improved, and cash conversion was well above target.

**Grow faster than the market**

In the economic slowdown, the market for GSM/WCDMA network equipment and related services is estimated to have declined by more than 10%. Ericsson s sales for comparable units were down 9%, adjusted for currency effects[2] . A decline in Networks in line with the market was partly offset by an increase in Professional Services, driven by strong growth in managed services. Reported Multimedia sales increased by 5% for comparable units. The Multimedia market is still too fragmented to make relevant overall market growth estimates.

**Best-in-class operating margins**

Operating margin, excluding JV results and restructuring, improved slightly to 12% (11%) despite lower volumes and remained the highest among major listed competitors. Multimedia showed the greatest improvement, up significantly from breakeven levels in 2008.

**Cash conversion of more than 70%**

Cash conversion was well above the target at 117% (92%), reflecting management s ongoing focus on improving working capital efficiency as well as a lower level of turnkey projects.

**KEY DEVELOPMENTS**

Two billion subscribers supported by Ericsson 24 hours a day, 7 days a week.

Ericsson provides managed services to network operators which together serve 370 million subscribers.

1) Excluding restructuring charges and share in earnings of JVs.
2) The impact of foreign currency is calculated based on exchange rate changes in 2009 compared to 2008. Releases under hedge accounting in 2008 and 2009 have also been excluded.

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North America set to become Ericsson s largest and fastest growing market.

Ericsson s presence in North America elevated Chief Technology Officer relocated to Silicon Valley.

Ericsson is the only supplier selected to participate in all major 4G/LTE projects.

A new brand launched with the value proposition: Innovating to Empower .

Both joint ventures make progress on returning to report profits.

**FINANCIAL RESULTS IN SHORT**

**NET SALES**
SEK 206.5 billion

**OPERATING INCOME***
SEK 24.6 billion

**OPERATING MARGIN***
12 percent

**NET CASH**
SEK 36.1 billion (Dec. 31, 2009)

**EARNINGS PER SHARE**

SEK 1.14

* Excluding restructuring charges and share in earnings of JVs

## LETTER FROM THE CEO

### LOOKING BACK

Dear fellow shareholders,

While the current economic environment affects all parts of society the longer-term fundamentals for our industry remain solid. Over the past decade the number of mobile subscriptions in the world has grown from some 700 million to over 4.5 billion. Mobile telephony is reaching a penetration beyond all expectations. Ten years ago it was all 2G; today 3G is the prevailing technology, mobile broadband is a reality and telecom is literally changing the world.

Ericsson has played a vital role in bringing the benefits of mobile broadband to the majority of the world s population. What we do greatly improves people s lives and society at large in short, what we do shapes people s lives and the world around us. One of my strongest memories is from the day we launched the network in Dertu, one of the Millennium Villages. Their chief, one of the camel drivers, came up to me and said, Today our village is reborn . People are now able to share ideas and information and accomplish things that were not possible before.

In the past ten years the telecom industry and Ericsson have transformed; from focus on voice to focus on internet, from hardware to software and from providing network equipment to providing solutions including services.

During the same period, many of our competitors have been forced to leave the arena and new ones have entered. We work harder than ever to outperform them and match our customers needs.

We have extended our leadership in mobile communications by building a highly successful services business which today accounts for almost 40 percent of our total Group sales. With less hardware, increased network complexity, and the move to all-IP, today is very much about making it work and supporting our customers in running and maintaining networks and realizing business models and rollout plans. During 2009 we captured additional strategic contracts in the services area and we now manage networks with 370 million subscribers.

The acquisition of Nortel s CDMA business during 2009, on the heels of important breakthrough contract wins in North America, positioned Ericsson as the leading provider of telecoms technology and services in the United States and Canada. We have also firmly established ourselves in Silicon Valley where much of the internet development takes place.

We also gained strategic contracts for the radio standard LTE (Long-Term Evolution) which offers even greater network speeds and in December 2009 we passed another significant milestone with the worlds first commercial launch of an LTE network in Sweden.

IN THE PAST TEN YEARS THE TELECOM INDUSTRY AND ERICSSON HAVE TRANSFORMED.

The industry has changed and our ability to change with it, and indeed to lead the change, is perhaps our most important asset. New and compelling challenges lie ahead and as a company Ericsson must continue to drive the transformation of our industry.

My years as President and CEO of Ericsson have been the best of my professional career. Telecom is one of the most exciting industries to work in so dynamic, challenging and competitive. I truly believe that telecom and the entire Information and Communication Technology (ICT) sector, particularly broadband networks, will form the backbone of the digital 21st century infrastructure, helping industries with the necessary reductions in their carbon footprint.

In closing, I will continue to follow and be involved in Ericsson s development in my role as a Board member. I am proud and grateful to have had the opportunity to be at the helm of this great company and I will remember all the extraordinary people I have had the honor to work with, customers, partners and colleagues alike.

Carl-Henric Svanberg

Former President and CEO

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IN THIS SEA OF CONNECTIVITY WE TAKE THE ROLE OF NAVIGATOR.

**LOOKING FORWARD**

Dear shareholders,

2009 was a year of mixed trends and with varied operator investment behavior. Some markets were impacted by the financial climate while others continued to show growth.

Our Group sales for the full year, however, were flat and the operating margin increased slightly. Despite the challenging economic environment we maintained market shares, cash flow was good and our financial position remained strong. During the year we undertook significant cost reduction activities. These, in combination with large losses in our joint ventures, affected our earnings negatively. However, cost reductions will result in reduced cost base going forward and our joint ventures remain on track to return to profit.

It is now 2010 and we have a new decade ahead of us. A decade of new opportunities and new challenges. Telecoms is no longer about voice only. We do not just connect places and people. We also connect machines and devices. We connect the developing world to the developed world, rural areas to urban areas. Telecoms is the nervous system of the world.

In Ericsson we have a vision for this new decade that there will be 50 billion connected devices. We will connect people with for example heart problems to remote monitoring systems so they can stay in the comfort of their homes, and we will connect our cars and trucks to smart road systems for safer driving and better fuel economy. Broadband networks will be the backbone of our smart cities, where houses will be connected so we can monitor and manage power consumption.

In this world the challenge will lie in dealing with the complexity of connecting all these devices. And we cannot fail. Patients must be able to rely on their health monitoring services. Transport companies must be sure that they can minimize gas consumption by smart routing and up-to-date traffic information.

In this sea of connectivity we take the role of navigator. We must support our customers and show them the way. This will require us to always put our customers first. Always have the best competence and drive innovation throughout the customer relationship.

Our business is about both technology and services. We have to be consultants; we have to be able to develop complex network management systems, we have to be able to integrate systems and solutions from many different suppliers and vendors. In addition, we should be able to deliver the best revenue management solutions and multimedia applications the consumers have ever seen. Everything must be based on IP software.

This new decade requires a lot from us. We will have to change our ways of working. Our success will be determined by our ability to see beyond technology, stay ahead of our customers and solve problems before they even arise.

In preparing ourselves to be successful in this new decade, we will need to continuously adjust to changing economic and competitive conditions while staying the course to our longer-term objectives. We will continue to proactively take actions to safeguard our financial position, leading technology and customer relationships. In order to drive shareholder value we focus on four financial targets; we want to grow the Company faster than the market, maintain best-in-class operating margins, have a healthy cash generation and grow earnings in the JVs.

We have exciting developments ahead. The future will require us to be agile, brave and focused on performance in all we do.

I am proud and honored to lead Ericsson into a new decade where we will undoubtedly break new ground. Even more people and devices will share information across the world.

Hans Vestberg

President and CEO

## FIVE-YEAR SUMMARY

For definitions of the financial terms used, see Glossary and Financial Terminology on page 234.

| 2006 | 2005 |
|---|---|
| | |
| 79,821 | 153,222 |
| 35,828 | 33,084 |
| 165 | 251 |
| 26,436 | 24,460 |
| | |
| 14,940 | 209,336 |
| 82,926 | 86,184 |
| 42,447 | 133,332 |
| 40,728 | 50,645 |
| | |
| 7,881 | 6,966 |
| | |
| 20,113 | 101,622 |
| 782 | 850 |
| | |
| 21,552 | 30,860 |
| | |
| 8.27 | 7.67 |
| | |
| 8.23 | 7.64 |
| 2.50 | 2.25 |

In re Skechers Toning Shoe Products Liability Litigation, case no. 11-md-02308-TBR. On August 13, 2012, the United S
Kentucky granted preliminary approval of the consumer class action settlement agreement in the *Grabowski/Morga* class
injunction enjoining the continued prosecution of this action. On May 13, 2013, the Court in the *Grabowski/Morga* class
nationwide consumer class action settlement, and the time for any appeals therefrom has expired. The settlement in the *G*
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, Ja
class action in the Superior Court of Québec, District of Montréal. Petitioner Angell seeks to bring a class action on beh
residents of Québec) who purchased Skechers Shape-ups footwear. Petitioner s motion alleges that we have market
advertisements and representations about the products ability to provide health benefits to users. The motion reque
seeking damages (including damages for bodily injury), punitive damages, and injunctive relief. Petitioner s motion wa
a mediation held on February 28, 2013, the parties reached an agreement in principle to settle the *Angell* action (as we
through authorization by the Québec Superior Court of a nationwide settlement class. That agreement was finalized by t
to the Québec Superior Court for approval. On November 5, 2014, the Court issued its formal judgment approving the
action settlement is reversed on appeal, we cannot predict the outcome of the *Angell* action or a reasonable range of p
action would have a material adverse impact on our results of operations, financial position or result in a material loss in

*Brenda Davies/Kourtney Smith v. Skechers U.S.A., Inc., Skechers U.S.A., Inc. II, and Skechers U.S.A. Canada Inc.* On
Claim in the Court of Queen s Bench in Edmonton, Alberta, on behalf of all residents of Canada who purchased Skeche
that Skechers marketed Shape-ups through the use of false and misleading advertisements and representations about th
The Statement of Claim seeks damages (including damages for bodily injury), restitution, punitive damages, and in
Amended Statement of Claim was filed to substitute a new representative plaintiff, Kourtney Smith, in place of Ms. Da
the original Statement of Claim with respect to all Skechers toning footwear sold to residents of Canada. On or about Fe
to the terms and conditions of the settlement reached in the *Angell*, *Niras*, and *Dedato* class actions (described above an
action once the settlement in the *Angell*, *Niras*, and *Dedato* class actions is finally approved by the Court and affi
November 5, 2014, the Québec Superior Court issued its formal judgment approving the settlement in the *Angell*
*Davies/Smith* action issued an order effectively dismissing that action. Notwithstanding, if approval of the class action s
outcome of the *Davies/Smith* action or a reasonable range of potential losses or whether the outcome of the *Davies/Smit*
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,
Ontario Superior Court of Justice on behalf of all residents of Canada who purchased Shape-ups, Resistance Runner, Sh
of Claim alleges that Skechers marketed these toning shoes through the use of false and misleading advertisements and
health benefits to users. The Statement seeks damages, restitution, punitive damages, and injunctive relief. Skechers ha
held on February 28, 2013, the parties reached an agreement in principle to settle the *Niras* action (as

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well as the *Angell* action described above and the *Dedato* action described below) through authorization by the Québec agreement was finalized by the parties in December 2013 and thereafter presented to the Québec Superior Court for ap Court issued its formal judgment approving the settlement. On November 20, 2014, the Ontario Superior Court issu Notwithstanding, if approval of the class action settlement is reversed on appeal, we cannot predict the outcome of the or whether the outcome of the *Niras* action would have a material adverse impact on our results of operations, financia 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 Dedat of Justice on behalf of all residents of Canada who purchased Shape-ups, Tone-ups or Resistance Runner footwear allegedly made misleading statements about its footwear products ability to provide fitness benefits to users. The St damages, and injunctive relief. Skechers has not yet responded to the Statement of Claim. At a mediation held on Feb principle to settle the *Dedato* action (as well as the *Angell* and *Niras* actions described above) through authorization by t class. That agreement was finalized by the parties in December 2013 and thereafter presented to the Québec Superior C Superior Court issued its formal judgment approving the settlement. On November 19, 2014, the Ontario Superior Cour action. Notwithstanding, if approval of the class action settlement is reversed on appeal, we cannot predict the outcome o losses or whether the outcome of the *Dedato* action would have a material adverse impact on our results of operations, f 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 Calgary, Alberta, Case No. 1301 10673. The third party notice asserts claims for indemnification and contribution arisin of wearing Shape-ups shoes. The class action settlement in the *Angell* action, described above, is expected to resolve action settlement is reversed on appeal, we cannot predict the outcome of the *Cooper* action or a reasonable range of p action would have a material adverse impact on our results of operations, financial position or result in a material loss in

*Personal Injury Lawsuits Involving Shape-ups* As previously reported, on February 20, 2011, Skechers U.S.A., Inc. were named as defendants in a lawsuit that alleged, among other things, that Shape-ups are defective and unreasonably d and do not conform to representations made by our company, and that we failed to provide adequate warnings of alle named as a defendant in 1,171 currently pending cases (some on behalf of multiple plaintiffs) filed in various courts th legal theories and assert similar claims to the first case, as well as claims for breach of express and implied warranties, lo variations in the relief sought, the plaintiffs generally seek compensatory and/or economic damages, exemplary and/or pu

On December 19, 2011, the Judicial Panel on Multidistrict Litigation issued an order establishing a multidistrict litiga Court for the Western District of Kentucky entitled *In re Skechers Toning Shoe Products Liability Litigation,* case n personal injury cases have been filed in or transferred to the MDL proceeding and 414 individuals have submitted clain 432 personal injury claims in the MDL proceedings, comprised of 62 that were filed as formal actions and 370 that wer settled 8 claims in principle 6 filed cases and 2 claims submitted by plaintiff fact sheets and anticipates that those s cases in the MDL proceeding have been dismissed either voluntarily or on motions by Skechers and 38 unfiled claims s The MDL currently encompasses 979 personal injury cases (which include the claims of 939 individuals who filed cour plaintiff fact sheets. Under a mediation procedure authorized by the District Court, a total of 2,353 settlement questionn lawsuit or who were already participants in the MDL or related coordinated proceedings pending in California state cour held on October 4, 2014 and December 16, 2014, but no settlements were reached. On December 29, 2014, the District C the parties for staggered, accelerated discovery and then either be remanded to their originating districts or set for tria both written and deposition discovery is proceeding. To the extent that the sixty selected cases are not resolved by dispo set for dates in early to mid-2016.

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Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group also have been named as defendants in
Superior Courts of the State of California that were brought on behalf of 913 individual plaintiffs (360 of whom also
mediation purposes in the MDL proceeding). Of those cases, 67 were originally filed in the Superior Court for the Cou
2014, the Judicial Council of California granted a petition by the Company to coordinate all personal injury actions filed
cases (collectively, the LASC Coordinated Cases ). On October 6, 2014, three cases that had been pending in othe
LASC Coordinated Cases. Four of the actions originally filed as LASC cases, brought on behalf of a total of 6 plaintif
plaintiffs have been dismissed entirely from certain of the lawsuits, either voluntarily, on motion by Skechers, or as
persons have been dismissed in part, either voluntarily or on motions by Skechers. Thus, the LASC Coordinated Cases
brought on behalf of a total of 863 plaintiffs. On March 12, 2014, the Superior Court selected twelve plaintiffs as bellw
March 2015. To date, extensive written discovery and document productions have taken place in the LASC cases. Over
of which were cross-noticed in the MDL), as have eight expert depositions. Two of the bellwether cases have settled a
Skechers filed a motion for summary judgment. On January 7, 2015, the Court vacated the March 2015 initial bell
summary adjudication in five bellwether cases with respect to those plaintiffs advertising-related claims, including th
of consumer protection laws. On February 25, 2015, the Court granted Skechers motions for summary adjudication
those plaintiffs advertising-related claims, including their claims for breach of warranty, fraud, and violations of cons
summary adjudication motions as to two of the four plaintiffs products liability claims for an alleged failure to war
motions seeking summary adjudication of all four plaintiffs products liability claims for alleged design defects. T
January 25, 2016 for the first two bellwether cases, but deferred selection of the specific individual bellwether plaintiff t

In other state courts, a total of 136 personal injury actions (some on behalf of numerous plaintiffs) have been filed that
the MDL. Ten of those actions have been resolved and dismissed. The remaining 126 actions include the claims of 539
settlement questionnaires in the MDL. Sixteen of those personal injury actions have been removed to various federal co
the near term. It is further expected that removal petitions and requests for transfer to the MDL will be filed for the other
has taken place in these actions and no 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 soli
is too early to predict the outcome of any case, whether there will be future personal injury cases filed, whether advers
have a material adverse impact on our operations or financial position, and whether insurance coverage will be adequate
have meritorious defenses, vehemently deny the allegations and intend to defend each of these cases vigorously.

*Gloria Basaraba v. Robert Greenberg, et al.* On July 15, 2013, plaintiff Gloria Basaraba moved to file under seal a s
individual members of its Board of Directors and a former employee in the United States District Court for the Centr
complaint included allegations of breach of fiduciary duties, gross mismanagement, waste of corporate assets and unju
toning footwear products, advertising and marketing activities relating thereto, and subsequent litigation involving
damages, a court order directing Skechers to reform and improve their corporate governance and internal procedures, a
2013, the Court denied plaintiff s motion to seal and ordered that she file an operative complaint. On September 5, 2
same defendants, except for the former employee. The operative complaint seeks to recover under the same causes of ac
the same allegations. On November 12, 2013 and November 15, 2013, the individual defendants and Skechers respecti
dismiss were subsequently taken off calendar in light of the parties settlement discussions. A settlement eventually
granted preliminary approval thereof. On October 10, 2014, plaintiff moved for final approval of the settlement. On
attorneys fees and expenses and an incentive award pursuant to the settlement agreement. On November 10, 2014, the

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for final settlement approval, finding the settlement fair, reasonable, and adequate. On November 12, 2014, the Co
expenses and an incentive award. This settlement is now final and it did not have a material adverse impact on our opera
excess of a recorded accrual.

*Converse, Inc. v. Skechers U.S.A., Inc.* On October 14, 2014, Converse filed an action against our company in the Unit
York, Brooklyn Division, Case 1:14-cv-05977-DLI-MDG, alleging trademark infringement, false designation of origin,
practices arising out of our alleged use of certain design elements on footwear. The complaint seeks, among other thing
damages, punitive damages, costs and attorneys fees. On October 14, 2014, Converse also filed a complaint naming
International Trade Commission, Federal Register Doc. 2014-24890, alleging violations of federal law in the importatio
footwear. Converse has requested that the Commission issue a general exclusion order, or in the alternative a limited ex
too early to predict the outcome of these legal proceedings or whether an adverse result in either or both of them would
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 ou
Central District of California, Case 2:14-cv-08988-SJO-FFM, alleging trademark infringement, patent infringement, tra
out of our alleged use of certain names and design elements. The complaint seeks, among other things, injunctive reli
statutory, treble and punitive damages, costs and attorneys fees. While it is too early to predict the outcome of these leg
both of them would have a material adverse impact on our operations or financial position, we believe we have meritori
vigorously.

In addition to the matters included in its reserve for loss contingencies, we occasionally become involved in litigation ar
unable to determine the extent of any liability that may arise from any such unanticipated future litigation. We have no
or a probability that we may incur a material loss, or a material loss in excess of a recorded accrual, with respect to any
of litigation is inherently uncertain and assessments and decisions on defense and settlement can change significant
consider the likelihood of such an outcome to be remote with respect to those matters for which we have not reserved
these legal matters were resolved against our company in the same reporting period for amounts in excess of our
statements of a particular reporting period could be materially adversely affected.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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## PART II

**ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MAT SECURITIES**

Our Class A Common Stock trades on the New York Stock Exchange under the symbol SKX. The following table se prices of our Class A Common Stock.

| |
|---|
| YEAR ENDED DECEMBER 31, 2014 |
| First Quarter |
| Second Quarter |
| Third Quarter |
| Fourth Quarter |
| YEAR ENDED DECEMBER 31, 2013 |
| First Quarter |
| Second Quarter |
| Third Quarter |
| Fourth Quarter |

HOLDERS

As of February 17, 2015, there were 101 holders of record of our Class A Common Stock (including holders who are owners) and 29 holders of record of our Class B Common Stock. These figures do not include beneficial owners who Stock is not publicly traded but each share is convertible upon request of the holder into one share of Class A Common S

DIVIDEND POLICY

Earnings have been and will be retained for the foreseeable future in the operations of our business. We have not Common Stock and do not anticipate paying any cash dividends in the foreseeable future. Our current policy is to development of our business.

EQUITY COMPENSATION PLAN INFORMATION

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

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PERFORMANCE GRAPH

The following graph demonstrates the total return to stockholders of our company s Class A Common Stock from Dec
performance of the Russell 2000 Index, which includes our Class A Common Stock, and the peer group index, which is
similar to ours. The peer group index consists of six companies: Nike, Inc., adidas AG, Steven Madden, Ltd., Wolverine
Corporation.

The graph assumes an investment of $100 on December 31, 2009 in each of our company s Class A Common Stock an
and the customized peer group index. Each of the indices assumes that all dividends were reinvested. The stock perform
on the graph is not necessarily indicative of future performance. We will not make nor endorse any predictions as to our

| | 12/09 |
|---|---|
| Skechers U.S.A., Inc. | 100.00 |
| Russell 2000 | 100.00 |
| Peer Group | 100.00 |

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**ITEM 6. SELECTED FINANCIAL DATA**

The following tables set forth our company s selected consolidated financial data as of and for each of the years in the
be read in conjunction with our audited consolidated financial statements and notes thereto included under Part II, Item 8

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

| | | YEA |
|---|---|---|
| **STATEMENT OF OPERATIONS DATA:** | **2014** | **2013** |
| Net sales | $ 2,377,561 | $ 1,846,3 |
| Gross profit | 1,071,905 | 818,7 |
| Earnings (loss) from operations | 209,071 | 93,6 |
| Earnings (loss) before income taxes (benefit) | 191,380 | 82,2 |
| Net earnings (loss) attributable to Skechers U.S.A., Inc. | 138,811 | 54,7 |
| Net earnings (loss) per share:(1) | | |
| Basic | 2.74 | 1. |
| Diluted | 2.72 | 1. |
| Weighted average shares:(1) | | |
| Basic | 50,613 | 50,3 |
| Diluted | 51,026 | 50,5 |

| | | |
|---|---|---|
| **BALANCE SHEET DATA:** | **2014** | **2013** |
| Working capital | $ 779,277 | $ 704,5 |
| Total assets | 1,674,918 | 1,408,5 |
| Long-term borrowings, excluding current installments | 15,081 | 116,4 |
| Skechers U.S.A., Inc. equity | 1,075,249 | 930,3 |

(1) Basic earnings per share represents net earnings (loss) divided by the weighted-average number of common shar
per share, in addition to the weighted average determined for basic earnings (loss) per share, reflects the potentia
stock were exercised or converted into common stock.

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**ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESU**

GENERAL

We design, market and sell contemporary footwear for men, women and children under the Skechers brand. Our footw
and leading specialty retail stores, mid-tier retailers, boutiques, our own retail stores, distributor and licensee-owned int
Our objective is to continue to profitably grow our domestic operations while leveraging our brand name to expand inter

Our operations are organized along our distribution channels and we have the following four reportable sales segment
sales, which include international direct subsidiary sales and international distributor sales, retail sales and e-comm
primarily on net sales and gross margins. See detailed segment information in Note 13 Segment Information in our co
Item 8 of this annual report.

FINANCIAL OVERVIEW

Our net sales for 2014 increased $531.2 million, or 28.8%, to $2.378 billion, compared to net sales of $1.846 billion in 2
our domestic wholesale, international wholesale and retail segments, with the largest increases across our Women s Go
USA divisions, which was partially offset by reduced sales of our BOB s products during 2014. Net earnings attribut
2014, an increase of $84.0 million, or 153.4%, compared to net earnings of $54.8 million in 2013. Diluted income per
increase from the $1.08 diluted income per share reported in the prior year. The increase in net earnings attributable to S
of increased sales in our domestic wholesale and international direct subsidiary sales segments following the introductio
and international direct subsidiary sales segments attributable to sales of product mix with higher margins. Our workin
which was an increase of $74.8 million from working capital of $704.5 million at December 31, 2013. Our cash increa
2014 from $372.0 million at December 31, 2013. This increase in cash of $94.7 million was primarily the result of our
were partially offset by increased inventories and increased accounts receivables.

2014 OVERVIEW

In 2014, we focused on product development, domestic and international growth, development of our global infrastructu

**New product design and delivery**. Our success depends on our ability to design and deliver trend-right, afford
demographics. In 2014, we focused on continuously updating our core styles, by adding fresh looks to our existing lines
performance footwear, such as Skechers GOrun 4, which has broadened and diversified our collection of product offerin

**Grow our domestic business.** In 2014, our focus was on maintaining our core Skechers business in our domestic whole
shelf space and expand into new locations with new Skechers categories. We also focused on expanding our domestic
domestic stores.

**Further develop our international businesses.** In 2014, we continued to focus on improving our international ope
existing subsidiary business and increasing our product offering to accounts within each country. We also focused on e
by opening 19 additional international stores.

**Develop our global infrastructure.** In 2014, we completed the first phase of the automation upgrade of our European D
in Chile from a third-party warehouse to a distribution center operated by us. We continue to upgrade our distribution fa
better manage our growth worldwide.

**Balance sheet and expense management.** During 2014, we continued to focus on managing our inventory levels ar
administrative expenses in line with expected sales.

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OUTLOOK FOR 2015

During 2015, we will continue to develop new lifestyle and performance product at affordable prices. The global foot
new styles and lines that we will be launching in the spring and fall seasons will enable us to continue to broaden the
increase our shelf space and open 50 to 60 new retail locations, predominantly in the United States, without detracting fr
develop our product distribution infrastructure by completing additional phases of equipment upgrades at our Europea
center. These upgrades will allow us to be more efficient and to support expected future growth. We expect these equip
of 2015.

DEFINITIONS

***Comparable Sales***

As part of our discussion of our results of operations, we disclose comparable store sales, which exclude the impact
period, we define comparable store sales as sales for stores that are owned and operated for at least thirteen full cale
within the current reporting period, and include only those sales for each of the comparable full calendar months that the
at the end of a lease during a reporting period, we include in comparable store sales the sales for the number of com
within the reporting period. We include new stores in comparable store sales commencing with the fourteenth month
meaningful comparison of operating results of months with stabilized operations, and excludes a new store s first ful
may not be representative for a variety of reasons.

Definitions and calculations of comparable store sales differ among companies in the retail industry, and therefore
comparable to the metrics disclosed by other companies.

***Cost of Sales or Gross Margins***

Our cost of sales includes the cost of footwear purchased from our manufacturers, duties, quota costs, inbound freight
distribution centers), broker fees and storage costs. Because we include expenses related to our distribution network in
our competitors may include expenses of this type in cost of sales, our gross margins may not be comparable and w
competitors in part for this reason.

***Selling expenses***

Selling expenses consist primarily of the following: sales representative sample costs, sales commissions, trade shows, a
television and ad production costs, and point-of-purchase costs.

***General and administrative expenses***

General and administrative expenses consist primarily of the following: salaries, wages and related taxes, various
stock-based compensation, domestic and international retail operations, non-selling related costs of our international
European and other foreign distribution centers, professional fees related to both legal and accounting, insurance, depre
settlements, amongst other expenses. Our distribution network related costs are included in general and administrative ex

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YEAR ENDED DECEMBER 31, 2014 COMPARED TO THE YEAR ENDED DECEMBER 31, 2013

***Net sales***

Net sales for 2014 were $2.378 billion, which was an increase of $531.2 million, or 28.8%, compared to net sales of $1
based and was attributable to higher sales in our domestic wholesale segment, international wholesale segment and our r
styles and lines of footwear.

Our domestic wholesale net sales increased $195.8 million, or 24.4%, to $998.0 million for 2014 compared to $80
wholesale segment was attributable to strong sales and significant growth in several key divisions including our Women
Men s USA divisions, which was partially offset by reduced sales of our BOB s products during 2014. The increase in
from a 19.1% unit sales volume increase to 44.9 million pairs in 2014 from 37.7 million pairs in 2013. The average
segment increased 4.4%, to $22.20 per pair for 2014 from $21.26 for 2013, which was primarily the result of increased s
and Men s USA divisions.

Our international wholesale segment net sales increased $210.4 million, or 43.9%, to $689.2 million for 2014 compared
wholesale sales consist of direct sales by our foreign subsidiaries those sales we make to department stores and speci
sell to retailers in various international regions where we do not sell directly. Direct sales by our foreign subsidiaries inc
2014 compared to sales of $354.1 million for 2013. The largest sales increases during the year came from our subsidiari
our joint ventures in China and Hong Kong. The increases are primarily attributable to sales of our Women s and Me
lines. Our distributor sales increased $67.3 million, or 54.1%, to $192.0 million for 2014, compared to sales of $124.7
increased sales to our distributors in Australia and New Zealand, South Korea, Taiwan, and the United Arab Emirates (

Our retail segment sales increased $125.3 million to $663.5 million for the year ended December 31, 2014, a 23.3%
increase in retail sales was primarily attributable to increased comparable sales of 10.6%, which included increased s
Women s Sport, and Men s USA divisions and a net increase of 41 domestic and 18 international stores compare
domestic retail sales increased 16.2% compared to 2013, which was attributable to positive comparable domestic store s
our international retail store sales increased 64.2% compared to 2013, which was attributable to increased international s
sales of 20.8%. During 2014, we opened two new domestic concept stores, 17 domestic factory outlet stores, 29 domest
stores, seven international factory outlet stores and three international warehouse outlet stores.

We believe that we have established our presence in most major domestic retail markets. We had 363 domestic stores
2015, and we currently plan to open approximately 50 to 60 stores in 2015. We opened 48 domestic retail stores and 19 i
underperforming domestic stores and one international concept store. We opened 31 domestic retail stores and 16
underperforming domestic stores and one international store. We periodically review all of our stores for impairm
impairment charge. Further, we carefully review our under-performing stores and may consider the non-renewal o
applicable lease.

Our e-commerce net sales decreased $0.3 million to $26.9 million for 2014, a 1.3% decrease compared to sales of $27
approximately 1.1% and 1.5% of our consolidated net sales for 2014 and 2013, respectively.

***Gross profit***

Gross profit for 2014 increased $253.1 million to $1.072 billion from $818.8 million for 2013. Gross profit as a percent
in 2014 from 44.4% for 2013. Our domestic wholesale segment gross profit increased $79.2 million, or 27.4%, to $3
attributable to increased sales volume. Domestic wholesale margins increased to 36.9% for 2014 from 36.0% for 201
primarily attributable to higher margins in our Men s USA and Women s Sport lines.

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Gross profit for our international wholesale segment increased $93.8 million, or 47.2%, to $292.7 million for 2014 comp
42.5% for 2014 compared to 41.5% for 2013. The increase in gross margins for our international wholesale segment
subsidiaries, which historically have achieved higher gross margins attributable to direct sales to customers than ou
distributors. Gross margins for our international direct subsidiary sales were 48.6% for 2014 as compared to 47.3% for
newer products. Gross margins for our international distributor sales were 26.5% for 2014 as compared to 25.1% for 201

Gross profit for our retail segment increased $79.6 million, or 24.9%, to $398.6 million for 2014 as compared to $319.
60.1% for 2014 compared to 59.3% for 2013. Gross margins for our domestic stores were 60.8% for 2014 as co
international stores were 57.2% for 2014 and 2013. The increases in domestic and overall retail margins were primarily
at higher margins.

***Selling expenses***

Selling expenses increased by $27.5 million, or 17.9%, to $181.0 million for 2014 from $153.5 million for 2013, althou
sales to 7.6% for 2014 from 8.3% for 2013 attributable to increased net sales. The increase in selling expenses was prim
also decreased as a percentage of net sales to 5.3% in 2014 from 5.6% in 2013 attributable to increased net sales.

***General and administrative expenses***

General and administrative expenses increased by $111.5 million, or 19.2%, to $690.9 million for 2014 from $579.4
administrative and legal expenses were 29.1% and 31.4% for 2014 and 2013, respectively. The increase in genera
attributable to $41.6 million related to supporting our growing international operations, increased store operating costs o
59 stores in comparison to the prior year, increased salaries and wages of $19.9 million, which includes incentive com
increased warehouse and distribution costs of $11.9 million. In addition, the expenses related to our distribution netwo
inspecting, allocating, warehousing and packaging of our products totaled $134.8 million and $122.9 million for 2014 an

***Other income (expense)***

Interest income was $0.8 million for each of 2014 and 2013. Interest expense for 2014 increased $0.6 million to $1
increase was primarily attributable to increased interest expense of $1.3 million attributable to interest incurred on purc
compared to the prior year, which was offset by reduced interest paid on loans for our domestic distribution center equip
increased $4.6 million to $5.4 million compared to $0.8 million in 2013. This increased foreign currency exchange
intercompany investments balances in our foreign subsidiaries and a stronger U.S. dollar. Gain on disposal of assets for
as compared to a gain of $0.4 million in 2013.

***Income taxes***

Our provision for income tax expense (benefit) and our effective income tax rate are significantly impacted by the mi
income taxes. In the non-U.S. jurisdictions in which we have operations, the applicable statutory rates are generally sig
34%. Our provision for income tax expense (benefit) was calculated using the applicable statutory income tax rate for e
in each jurisdiction, while our effective tax rate is calculated by dividing income tax expense (benefit) by earnings (loss)

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Our earnings (loss) before income taxes and income tax expense (benefit) for 2014, 2013 and 2012 are as follows (in tho

| | | | Years Ende |
|---|---|---|---|
| | 2014 | | |
| **Income tax jurisdiction** | **Earnings (loss) before income taxes** | **Income tax expense** | **Earnings (los before income taxes** |
| United States | $ 82,778 | $ 32,500 | $ 38,705 |
| Canada | 6,241 | 1,572 | 4,091 |
| Chile | 629 | 138 | 9,622 |
| Peoples Republic of China ( China ) | 15,201 | 1,179 | 6,148 |
| Jersey **(1)** | 77,555 | 0 | 25,348 |
| Non-benefited loss operations **(2)** | (13,021) | 0 | (15,841) |
| Other jurisdictions **(3)** | 21,997 | 3,795 | 14,142 |
| Earnings before income taxes | $ 191,380 | $ 39,184 | $ 82,215 |
| Effective tax rate **(4)** | | 20.5% | |

**(1)** Jersey does not assess income tax on corporate net earnings.

**(2)** Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being repo allowances: Japan, Brazil and India.

**(3)** Consists of entities in the following tax jurisdictions, each of which comprises not more than 5%, of 2014 cons France, Spain, Belgium, Italy, Netherlands, Switzerland, Malaysia, Thailand, Singapore, Hong Kong, Portugal an

**(4)** The effective tax rate is calculated by dividing income tax expense (benefit) by earnings before income taxes.

For 2014, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 39% p in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2014, as refle taxes in the U.S. was earnings of $82.8 million, with income tax expense of $32.5 million, an average rate of 39.3%, w jurisdictions was earnings of $108.6 million, with aggregate income tax expense of $6.7 million, an average rate of 6. before income taxes for the period of $191.4 million, and consolidated income tax expense for the period of $39.2 mi estimate our annual effective tax rate for 2015 to be between 20 percent and 25 percent. The estimated effective tax rate and revision, if necessary.

For 2014, of our $108.6 million in earnings before income tax earned outside the U.S., $77.6 million was earned i earnings. In addition, there were foreign losses of $13.0 million for which no tax benefit was recognized during the yea of offsetting valuation allowances. Individually, none of the other foreign jurisdictions included in Other jurisdicti consolidated earnings (loss) before taxes.

Unremitted earnings of non-U.S. subsidiaries are expected to be reinvested outside of the U.S. indefinitely. Such earnin of these subsidiaries or upon the remittance of dividends.

As of December 31, 2014, we had approximately $466.7 million in cash and cash equivalents, of which $193.2 millio million held by our non-U.S. subsidiaries, approximately $42.8 million is available for repatriation to the U.S. without

income and withholding taxes in excess of the amounts accrued in our financial statements as of December 31, 2014. W
U.S. and cash provided from operations are sufficient to meet our liquidity needs in the U.S. for the next twelve month
any of the funds presently designated as indefinitely reinvested outside the U.S. Under current applicable tax laws, if w
designated as indefinitely reinvested outside the U.S., the amount repatriated would be subject to U.S. income taxes an
As of December 31, 2014 and 2013, U.S. income taxes have not been provided on cumulative total earnings of
respectively.

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***Non-controlling interest in net income and loss of consolidated subsidiaries***

Non-controlling interest for 2014 increased $7.3 million to expense of $13.4 million as compared expense of $6.1 mil share of net earnings or loss that is attributable to our joint venture partners.

YEAR ENDED DECEMBER 31, 2013 COMPARED TO THE YEAR ENDED DECEMBER 31, 2012

***Net sales***

Net sales for 2013 were $1.846 billion, which was an increase of $286.0 million, or 18.3%, compared to net sales of $ primarily attributable to higher sales in our domestic wholesale, international subsidiaries and retail segments of new second half of 2012.

Our domestic wholesale net sales increased $149.5 million, or 22.9%, to $802.2 million for 2013 compared to $65 wholesale segment was attributable to strong sales and significant growth in several key divisions including our Wo divisions, which were offset by reduced sales in our Women s Active and Women s USA divisions. The increase in from a 24.3% unit sales volume increase to 37.7 million pairs in 2013 from 30.4 million pairs in 2012. The average segment decreased slightly to $21.26 per pair for 2013 from $21.50 for 2012, which was primarily the result of lo increased closeouts as compared to 2012.

Our international wholesale segment net sales increased $46.6 million, or 10.8%, to $478.8 million for 2013 compared t foreign subsidiaries increased $59.7 million, or 20.3%, to $354.1 million for 2013 compared to sales of $294.4 million came from our subsidiaries in Canada and France and our joint ventures in Hong Kong, China, Singapore and India, w increases are primarily attributable to sales of our Women s and Men s Go, Women s Active, Women s Sport and million, or 9.5%, to $124.7 million for 2013, compared to sales of $137.7 million for 2012. This was primarily attribut South Korea, Ukraine and the United Arab Emirates.

Our retail segment net sales increased $84.6 million, or 18.7%, to $538.2 million for 2013, compared to sales of $45 attributable to positive comparable store sales and a net increase of 21 domestic stores and 15 international stores. For 14.8% in our domestic retail stores and 15.2% in our international retail stores. The comparable store sales increase w products. During 2013, we opened 10 new domestic concept stores, 13 domestic factory outlet stores, eight domestic stores and eight international factory outlet stores. Our domestic retail sales increased 17.8% for 2013 in comparison t sales and the net increase of 21 domestic stores. Our international retail sales increased 24.1% for 2013 compared to 201 sales in Canada, Chile and the United Kingdom as well as a net increase of 15 international stores.

We believe that we have established our presence in most major domestic retail markets. We had 324 domestic stores 2014. We opened 31 domestic retail stores and 16 international retail stores in 2013, while closing 10 underperforming we closed five domestic stores and two international concept stores. We periodically review all of our stores for impa impairment charge. Further, we carefully review our under-performing stores and may consider the non-renewal o applicable lease.

Our e-commerce net sales increased $5.3 million to $27.2 million for 2013, a 24.2% increase compared to sales of $2 approximately 1.5% and 1.4% of our consolidated net sales for 2013 and 2012, respectively.

***Gross profit***

Gross profit for 2013 increased $135.5 million to $818.8 million from $683.3 million for 2012. Gross profit as a percen in 2013 from 43.8% for 2012. Our domestic wholesale segment gross profit increased $45.9 million, or 18.9%, to $2

attributable to increased sales volume. Domestic wholesale margins decreased to 36.0% for 2013 from 37.2% for 201
primarily

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attributable to lower margins in our Men s and Women s Active lines as well as increased non-toning closeouts, wh
toning products as compared to the same period in the prior year.

Gross profit for our international wholesale segment increased $32.4 million, or 19.5%, to $198.9 million for 2013 comp
41.5% for 2013 compared to 38.5% for 2012. The increase in gross margins for our international wholesale segment
European subsidiaries, which historically have achieved higher gross margins attributable to direct sales to customer
foreign distributors. Gross margins for our direct foreign subsidiary sales were 47.3% for 2013 as compared to 44.7%
discounted toning products and increased sales of our newer products. Gross margins for our international distributor s
2012.

Gross profit for our retail segment increased $55.0 million, or 20.8%, to $319.0 million for 2013 as compared to $264.
59.3% for 2013 compared to 58.2% for 2012. Gross margins for our domestic stores were 59.6% for 2013 as co
international stores were 57.2% for 2013 as compared to 56.1% for 2012. The increases in domestic and overall retail ma
our newer products at higher margins and reduced sales of discounted toning products at lower margins.

***Selling expenses***

Selling expenses increased by $18.6 million, or 13.8%, to $153.5 million for 2013 from $134.9 million for 2012, althou
sales to 8.3% for 2013 from 8.7% for 2012 attributable to increased net sales. The increase in selling expenses was prim
also decreased as a percentage of net sales to 5.6% in 2013 from 5.8% in 2012 attributable to increased net sales.

***General, administrative and legal expenses***

General, administrative and legal expenses increased by $46.2 million, or 8.7%, to $579.4 million for 2013 from $533.
administrative and legal expenses were 31.4% and 34.2% for 2013 and 2012, respectively. The increase in genera
attributable to increased salaries and wages of $14.3 million, which includes incentive compensation, increased w
increased rent expense of $5.3 million primarily attributable to an additional 36 stores in comparison to the prior year
network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of our pr
2013 and 2012, respectively.

***Interest income***

Interest income for 2013 increased $0.2 million to $0.8 million as compared to $0.6 million for 2012. The increase in int
balances.

***Interest expense***

Interest expense for 2013 decreased $1.4 million to $11.9 million compared to $13.3 million in 2012. The decrease was
$0.3 million attributable to reduced principal balances on loans related to equipment in our domestic distribution c
attributable to lower interest rates on loans related to our domestic distribution center that we refinanced in November
owed to our foreign manufacturers.

***Gain on disposal of assets***

Gain on disposal of assets for 2013 increased $0.6 million to a gain of $0.4 million as compared to a loss of $0.2 million

***Income taxes***

Our provision for income tax expense (benefit) and our effective income tax rate are significantly impacted by the mi
income taxes. In the non-U.S. jurisdictions in which we have operations, the applicable statutory rates are generally sig
41%. Our provision for income tax expense

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(benefit) was calculated using the applicable statutory income tax rate for each jurisdiction applied to our pre-tax earnir
rate is calculated by dividing income tax expense (benefit) by earnings (loss) before income taxes.

Our earnings (loss) before income taxes and income tax expense (benefit) for 2013, 2012 and 2011 are as follows (in tho

| | | | |
|---|---|---|---|
| | | | Years I |
| | 2013 | | |
| Income tax jurisdiction | Earnings (loss) before income taxes | Income tax expense | Earnings befor incon taxe |
| United States | $ 38,705 | $ 12,807 | $ (27,3 |
| Canada | 4,091 | 1,187 | 2,5 |
| Chile | 9,622 | 1,920 | 5,9 |
| Peoples Republic of China ( China ) | 6,148 | 1,646 | 1,2 |
| Jersey **(1)** | 25,348 | 0 | 25,1 |
| Non-benefited loss operations **(2)** | (15,841) | 0 | (13,4 |
| Other jurisdictions **(3)** | 14,142 | 3,787 | 16,3 |
| Earnings (loss) before income taxes | $ 82,215 | $ 21,347 | $ 10,4 |
| Effective tax rate **(4)** | | 26.0% | |

**(1)** Jersey does not assess income tax on corporate net earnings.
**(2)** Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being repo
allowances: Japan, Brazil, China, Hong Kong and India.
**(3)** Consists of entities in the following tax jurisdictions, each of which comprises not more than 5%, of 2013 cons
France, Spain, Belgium, Italy, Netherlands, Switzerland, Malaysia, Thailand, Singapore, China, Hong Kong, Port
**(4)** The effective tax rate is calculated by dividing income tax expense (benefit) by earnings (loss) before income taxe
For 2013, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 40% p
in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2013, as reflec
taxes in the U.S. was earnings of $38.7 million, with income tax expense of $12.8 million, an average rate of 33.1%, w
jurisdictions was earnings of $43.5 million, with aggregate income tax expense of $8.5 million, an average rate of 19.
(loss) before income taxes for the period of $82.2 million, and a consolidated income tax expense for the period of $21.3

For 2013, of our $43.5 million in earnings before income tax earned outside the U.S., $25.3 million was earned in Jersey
In addition, there were foreign losses of $15.8 million for which no tax benefit was recognized during the year enc
offsetting valuation allowances. Individually, none of the other foreign jurisdictions included in Other jurisdictio
consolidated earnings (loss) before taxes.

Unremitted earnings of non-U.S. subsidiaries are expected to be reinvested outside of the U.S. indefinitely. Such earnin
of these subsidiaries or upon the remittance of dividends.

As of December 31, 2013, we had approximately $372.0 million in cash and cash equivalents, of which $166.5 millio
million held by our non-U.S. subsidiaries, approximately $51.2 million is available for repatriation to the U.S. without
income and withholding taxes in excess of the amounts accrued in our financial statements as of December 31, 2013.
U.S. and cash provided from operations are sufficient to meet our liquidity needs in the U.S. for the next twelve month
any of the funds presently designated as indefinitely reinvested outside the U.S. Under current applicable tax laws, if w
designated as indefinitely reinvested outside the U.S., the amount repatriated would be subject to U.S. income taxes an
As of December

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31, 2013 and 2012, U.S. income taxes have not been provided on cumulative total earnings of approximately $226.0 mill

***Non-controlling interest in net income and loss of consolidated subsidiaries***

Non-controlling interest for 2013 increased $5.1 million to expense of $6.1 million as compared expense of $1.0 mill share of net earnings or loss that is attributable to our joint venture partners.

LIQUIDITY AND CAPITAL RESOURCES

***Cash Flows***

Our working capital at December 31, 2014 was $779.3 million, an increase of $74.8 million from working capital of $70 equivalents at December 31, 2014 was $466.7 million compared to $372.0 million at December 31, 2013. This increas effect of exchange rates, was the result of our net earnings of $152.2 million, depreciation of property and equipme million, which was partially offset by capital expenditures of $56.9 million, increased receivables of $70.7 million ar primary sources of operating cash are collections from customers on wholesale and retail sales. Our primary uses o administrative expenses and debt service payments.

Net cash provided by operating activities was $163.9 million for 2014 and net cash provided by operating activi year-to-year basis, the $64.9 million increase in cash flows from operating activities in 2014 from cash used in operating in net earnings of $91.3 million and an increase in accounts payable balances of $81.1 million primarily attribu manufactures due to increased purchases at the end of the year when compared to the same period in the prior year balances were partially offset by a $127.0 million increase in inventories to support increased worldwide backlog December 31, 2014 as compared to December 31, 2013.

Net cash used in investing activities was $56.9 million for 2014 as compared to $41.4 million in 2013. The increase in to 2013 was the result of increased capital expenditures. Capital expenditures for 2014 were approximately $56.9 mil openings and remodels, $13.9 million for the initial phase of automation upgrades for our European Distribution Ce equipment upgrades, $1.8 million for equipment costs for our new distribution center in Chile and $2.1 million related development. This was compared to capital expenditures of $41.3 million in the prior year, which primarily cons distribution center and new store openings and remodels. We expect our ongoing capital expenditures for 2015 to be betv opening 50 to 60 retail stores, store remodels, a property purchase for potential future corporate development and inves currently in the process of designing and installing additional phases of equipment upgrades for our European Distributi estimate the remaining cost of these equipment upgrades to be approximately $25.0 million. We expect these upgrades believe our current cash, operating cash flows, available lines of credit and current financing arrangements should be ade may seek additional funding for all or a portion of these expenditures.

Net cash used in financing activities was $9.0 million during 2014 compared to $9.9 million during 2013. The increa attributable to decreased contributions received from the non-controlling interest which were offset by increased short-te

***Sources of Liquidity***

On April 30, 2010, we entered into a construction loan agreement (the Loan Agreement ), by and among HF Logisti ( HF-T1 ), Bank of America, N.A. and Raymond James Bank, FSB. Borrowings made pursuant to the Loan Agreem Loan ), which were used to construct our domestic distribution facility in Rancho Belago, California. Borrowings b original maturity date was April 30, 2012, which was extended to November 30, 2012. On November 16, 2012, HF-T1 Modification ), which increased the borrowings under the Loan to $80.0 million and extended the maturity date of th to (i) repay $54.7 million in outstanding

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borrowings under the original Loan, (ii) repay a loan of $18.3 million including accrued interest from HF to the JV, accrued interest from Skechers RB, LLC, a wholly-owned subsidiary of our company (iv) pay a deferred management f $0.9 million to each of HF and Skechers RB, LLC, with (v) $0.8 million used for loan fees and other closing costs. additional lender that funded in part the increase to the Loan, and the interest rate on the Loan is the daily British Bank which is no longer subject to a minimum rate. The Loan Agreement and the Modification are subject to customary cov with all debt covenant provisions related to the Loan Agreement as of the date of this annual report. We had $77.9 mi Modification, which is included in short-term borrowings on December 31, 2014. We paid commitment fees of $0.6 mi 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 betwe an Equipment Security Note (together with the Master Agreement, the Loan Documents ), by and among us, Banc of agent ( Agent ). We used the proceeds to refinance certain equipment already purchased and to purchase new equipr Borrowings made pursuant to the Master Agreement may be in the form of one or more equipment security notes (each a limit of $80.0 million and each for a term of 60 months. The Note entered into on the same date as the Master Agreer million. Interest accrues at a fixed rate of 3.54% per annum. On June 30, 2011, we entered into another Note agreement fixed rate of 3.19% per annum. As of December 31, 2014, an aggregate of $37.1 million was outstanding under the N borrowings and $13.9 million is included in short-term borrowings. We paid commitment fees of $0.8 million on this loa 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 syndicat On November 5, 2009, March 4, 2010, May 3, 2011, and September 30, 2013, we entered into four successive ame Amended Credit Agreement ). The Amended Credit Agreement matures in June 2015. The Amended Credit Agreem up to $250.0 million based upon a borrowing base of eligible accounts receivable and inventory, which amount can be satisfaction of certain conditions including obtaining the commitment of existing or prospective lenders willing to prov at our election based on LIBOR or a Base Rate (defined as the greatest of the base LIBOR plus 1.00%, the Federal Func each case, plus an applicable margin based on the average daily principal balance of revolving loans under the credit ag 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 annu balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Ar on the issuance of letters of credit to a maximum of $50.0 million. The Amended Credit Agreement contains customary facilities of this type, including a fixed charge coverage ratio that applies when excess availability is less than $40.0 r places limits on additional indebtedness that we are permitted to incur as well as other restrictions on certain transactior million on this facility, which are being amortized over the six-year life of the facility.

As of December 31, 2014, outstanding short-term and long-term borrowings were $118.3 million, of which $37.1 milli for our domestic distribution center that are secured by the equipment, and $79.4 million primarily relates to our constr $1.7 million relates to our joint venture in India.

We believe that existing cash balances, anticipated cash flows from operations, available borrowings under our secured l be sufficient to provide us with the liquidity necessary to fund our anticipated working capital and capital require foreseeable future. We did not provide for deferred income taxes on accumulated undistributed earnings of our non-U cumulative undistributed earnings as of December 31, 2014. However, in connection with our current strategies, we w capital expenditures. Our future capital requirements will depend on many factors, including, but not limited to, the sus our markets, costs associated with upgrading the equipment in both our European Distribution Center and Rancho Belag inventory, sale of excess inventory at discounted prices, the market acceptance of our footwear, the success of our in marketing required to promote our footwear, the extent to which we invest in new product design and improvements to c of other brands or companies, and the number and timing of new store

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openings. To the extent that available funds are insufficient to fund our future activities, we may need to raise additiona equity. Recently, we have been successful in raising additional funds through financing activities however, we cannot be us or that, if available, it can be obtained on terms favorable to our stockholders and us. Failure to obtain such financin which could adversely affect our business, financial condition and results of operations. In addition, if additional cap convertible securities, dilution to our stockholders could occur.

DISCLOSURE ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our material contractual obligations and commercial commitments as of December 31, 2

| | Total | Less O Ye |
|---|---|---|
| Short-term borrowings | $ 1,810 | $ |
| Long-term borrowings (1) | 116,488 | 10 |
| Operating lease obligations (2) | 1,069,447 | 14 |
| Purchase obligations (3) | 733,578 | 73 |
| Rancho Belago and EDC equipment | 24,016 | 2 |
| Minimum payments related to other arrangements | 6,509 | |
| Total (4) | $ 1,951,848 | $ 1,00 |

(1) Amounts include anticipated interest payments based on interest rates currently in effect.

(2) Operating lease obligations consists primarily of real property leases for our retail stores, corporate offices, E These leases frequently include options that permit us to extend beyond the terms of the initial fixed term. We c flows from operations and existing cash balances.

(3) Purchase obligations include the following: (i) accounts payable balances for the purchase of footwear of $17 million and (iii) open purchase commitments with our foreign manufacturers for $558.7 million. We currently ex operations and existing cash balances.

(4) Our consolidated balance sheet as of December 31, 2014, included $7.9 million in unrecognized tax ben unrecognized tax benefits have not been presented in the table above due to the uncertainty of the amounts and po authorities, and whether any settlement would occur.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any relationships with unconsolidated entities or financial partnerships such as entities often referred to would have been established for the purpose of facilitating off-balance-sheet arrangements or for other contractually nar 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 consolida accordance with accounting principles generally accepted in the United States of America. The preparation of thes subjective and complex estimates and judgments that affect the reported amounts of assets, liabilities, sales and expe liabilities.

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We base our estimates and judgments on historical experience, other available information, and on other assump
circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabiliti
consider if the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment or the
impact of the estimates and assumptions on financial condition or operating performance is material. Actual resu
assumptions or conditions.

We believe the following critical accounting estimates are affected by significant judgments used in the preparatio
recognition, allowance for bad debts, returns, sales allowances and customer chargebacks, inventory write-downs, va
valuation of deferred income taxes.

***Revenue Recognition.*** We derive income from the sale of footwear and royalties earned from licensing the Skechers br
( FOB ) shipping point directly from our domestic distribution center in Rancho Belago, California. For our internat
product is shipped FOB shipping point direct from our distribution center in Liege, Belgium. For our distributor sales
independent factories to our distributors freight forwarders on a Free Named Carrier ( FCA ) basis. We recognize re
the customer takes title and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive
is fixed or determinable. This generally occurs at time of shipment. Related costs paid to third-party shipping companies
from retail sales at the point of sale. Sales and value added taxes collected from retail customers are excluded from repo
to return goods, we periodically decide to accept returns or provide customers with credits. Allowances for estimated r
are provided for when related revenue is recorded.

Royalty income is earned from our licensing arrangements. Upon signing a new licensing agreement, we receive up-fro
royalties. These fees are initially deferred and recognized as revenue as earned (i.e., as licensed sales are reported to the
the agreement). The first calculated royalty payment is based on actual sales of the licensed product or, in some ca
quarter-end we receive correspondence from our licensees indicating what the actual sales for the period were. This in
royalties currently receivable based on the terms of the agreement.

***Allowance for bad debts, returns, sales allowances and customer chargebacks.*** We provide a reserve against our rece
customers inability to pay. To minimize the likelihood of uncollectibility, customers credit-worthiness is reviewed
financial statements issued by the customer and our experience with the account, and it is adjusted accordingly. When a c
generally place a hold on the account and discontinue further shipments to that customer, minimizing further risk o
analyzing known uncollectible accounts, aged receivables, economic conditions in the customers countries
credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written o
allowances and customer chargebacks are recorded against revenue. Allowances for bad debts are recorded to general an

We also reserve for potential disputed amounts or chargebacks from our customers. Our chargeback reserve is based o
historical trends, current economic conditions, and nature of the chargeback receivables. We also reserve for potential sa

The likelihood of a material loss on an uncollectible account would be mainly dependent on deterioration in the overall e
Reserves are fully provided for all probable losses of this nature. For receivables that are not specifically identified
historical loss rate as a percentage of sales. Gross trade accounts receivable were $293.1 million and $241.9 milli
allowances and customer chargebacks were $21.0 million and $15.9 million, at December 31, 2014 and 2013, respective
ended December 31, 2014, 2013 and 2012 were $11.8 million, $2.6 million and $1.5 million, respectively. In additio
(recoveries) for the years ended December 31, 2014, 2013 and 2012 of $2.3 million, $0.2 million and $(0.4) million, resp

***Inventory write-downs.*** Inventories are stated at the lower of cost or market. We continually review our inventory for ex
on inventory on hand, prior sales and our expected net realizable value. Our analysis includes a review of inventory quan
sales, existing orders from customers and

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projections for sales in the foreseeable future. The net realizable value, or market value, is determined based on our e historical sales experience on a style by style basis. A write-down of inventory is considered permanent and creates a material inventory write-down is dependent primarily on our expectation of future consumer demand for our produc consumer demand for our product or of the economy, or other failure to estimate correctly, could result in inventory compared to the requirement determined to be appropriate as of the balance sheet date. Our gross inventory value was reserve was $3.3 million and $3.8 million, at December 31, 2014 and 2013, respectively.

***Valuation of intangibles and long-lived assets.*** When circumstances warrant, we test for recoverability of the asset gr future cash flows based on the existing service potential of the applicable asset group in determining the fair value of ea than not that the fair value of a reporting unit is less than its carrying amount based upon our assessment of the following

macroeconomic conditions such as a deterioration in general economic conditions, limitations on access other developments in equity and credit markets;

industry and market considerations such as a deterioration in the environment in which an entity operates, a decline in market-dependent multiples or metrics, or a change in the market for an entity s products development;

cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings

overall financial performance such as negative or declining cash flows or a decline in actual or planned rev results of relevant prior periods;

other relevant entity-specific events such as changes in management, key personnel, strategy, or customers

events affecting a reporting unit such as a change in the composition or carrying amount of its net asse disposing all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group impairment loss in the financial statements of a subsidiary that is a component of a reporting unit;

a sustained decrease in share price.

If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value addition, we base the useful lives and related amortization or depreciation expense on our estimate of the period that the us. In addition, we prepare a summary of cash flows for each of our retail stores to assess potential impairment of the f negative cash flows opened in excess of twenty-four months are then reviewed in detail to determine if impairment qualitative factors to asses if a triggering event occurred. For the years ended December 31, 2014, 2013 and 2012, respec

***Litigation reserves.*** Estimated amounts for claims that are probable and can be reasonably estimated are recorded a likelihood of a material change in these estimated reserves would depend on additional information or new claims as the of the particular litigation. Both the likelihood and amount (or range of loss) on a large portion of our remaining pend make a reasonable estimate of the liability that could result from unfavorable in outcomes in our remaining pending liti

we will assess the potential liability related to our pending litigation and revise our estimates. Such revisions in our esti
our results of operations and financial position.

***Valuation of deferred income taxes.*** We record a valuation allowance when necessary to reduce our deferred tax as
realized. The likelihood of a material change in our expected realization of our deferred tax assets depends on future tax
strategies amongst the various domestic and international tax jurisdictions in which we operate. We evaluate our projecti
of our deferred tax assets and the need for a valuation allowance. As of December 31, 2014, we had net deferred tax ass
of $17.5 million against loss carry-forwards not expected to be utilized by certain foreign subsidiaries.

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INFLATION

We do not believe that the relatively moderate rates of inflation experienced in the United States over the last thre
profitability. However, we cannot accurately predict the effect of inflation on future operating results. Although higher
of foreign countries in which our products are manufactured, we do not believe that inflation has had a material effect o
to offset our foreign product cost increases by increasing prices or changing suppliers in the past, we cannot assure
increases or changes in the future.

EXCHANGE RATES

We receive U.S. dollars for substantially all of our domestic and a portion of our international product sales as well as o
contract manufacturers are primarily denominated in U.S. dollars; however, purchase prices for our products may be in
the U.S. dollar and the local currencies of the contract manufacturers, which may have the effect of increasing our
exchange rate fluctuations did not have a material impact on our inventory costs. We do not engage in hedging activities

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ( FASB ) amended the FASB Accounting Standards Co
*Contracts with Customers* ( ASC 606 ). This amendment prescribes that an entity should recognize revenue to depict
an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods o
recognition requirements in Topic 605, Revenue Recognition , and most industry-specific guidance throughout the Ind
reporting periods the mandatory adoption date of ASC 606 is January 1, 2017, and there will be two methods of adop
modified retrospective adoption. The Company is currently evaluating the impact of ASC 606, but at the current time d
on revenue recognized and other accounting decisions in future periods, if any, nor what method of adoption will be sele

In August 2014, the FASB amended the FASB Accounting Standards Codification and amended Subtopic 205-40, *I*
This amendment prescribes that an entity s management should evaluate whether there are conditions or events, consid
the entity s ability to continue as a going concern within one year after the date that the financial statements are is
Company s annual and interim reporting periods beginning January 1, 2017. The Company is evaluating the impact
Company does not expect that the adoption of this standard will have a material impact on the Company s consolidated

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the potential loss arising from the adverse changes in market rates and prices, such as interest rates, m
exchange rates. Changes in interest rates, marketable debt security prices and changes in foreign currency exchange
operations. We do not hold any derivative securities that require fair value presentation under ASC 815-10.

***Interest rate fluctuations.*** Interest rates charged on our long-term debt are based on either the prime rate of interest o
interest could have an effect on the interest charged on our outstanding balances. At December 31, 2014 we had $1.8 mi
long-term borrowings, respectively subject to changes in interest rates; however, we do not expect that any changes wil
results of operations.

***Foreign exchange rate fluctuations***. We face market risk to the extent that changes in foreign currency exchange rates a
subsidiary s revenues, expenses, assets and liabilities. In addition, changes in foreign exchange rates may affect the
purchases of our products may be impacted by

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fluctuations in the exchange rates between the U.S. dollar and the local currencies of the contract manufacturers, which
sold in the future. We manage these risks by primarily denominating these purchases and commitments in U.S. dollars.
respect to such exchange rate risks. A 200 basis point reduction in the exchange rates used to calculate foreign curr
reduced the values of our net investments by approximately $11.0 million.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF EARNINGS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENTS OF EQUITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

Skechers U.S.A., Inc.

Manhattan Beach, CA

We have audited the accompanying consolidated balance sheets of Skechers U.S.A., Inc. and subsidiaries as of Decen
statements of earnings, comprehensive income, equity, and cash flows for each of the three years in the period ended De
financial statements, we have also audited the financial statement schedule listed in the accompanying index. These finar
the Company s management. Our responsibility is to express an opinion on these financial statements and schedule base

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (Unit
perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstate
evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used an
as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reaso

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financia
December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the p
accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financi
material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United S
control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integ
Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 27, 2015 expressed an u

/s/ BDO USA, LLP

Los Angeles, CA

February 27, 2015

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

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except par values)**

ASSETS

Current Assets:
Cash and cash equivalents
Trade accounts receivable, less allowances of $21,007 in 2014 and $15,926 in 2013
Other receivables

Total receivables
Inventories
Prepaid expenses and other current assets
Deferred tax assets

Total current assets
Property, plant and equipment, at cost, less accumulated depreciation and amortization
Goodwill and other intangible assets, less accumulated amortization
Deferred tax assets
Other assets, at cost

Total non-current assets

TOTAL ASSETS

LIABILITIES AND EQUITY

Current Liabilities:
Current installments of long-term borrowings
Short-term borrowings
Accounts payable
Accrued expenses

Total current liabilities
Long-term borrowings, excluding current installments
Other long-term liabilities

Total non-current liabilities

Total liabilities
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; 40,287 and 39,688 shares issued and outstanding at December 31, 2014 and 2013, respectively
Class B Common Stock, $.001 par value; 60,000 shares authorized; 10,470 and 10,870 shares issued and outstanding at 2014 and 2013, respectively
Additional paid-in capital
Accumulated other comprehensive loss
Retained earnings

Skechers U.S.A., Inc. equity
Noncontrolling interests

Total equity

TOTAL LIABILITIES AND EQUITY

See accompanying notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF EARNINGS**

**(In thousands, except per share data)**

Net sales
Cost of sales

Gross profit
Royalty income

Operating expenses:
Selling
General and administrative

Earnings from operations

Other income (expense):
Interest income
Interest expense
Other, net
Gain (loss) on foreign currency transactions

Earnings before income tax expense
Income tax expense (benefit)

Net earnings
Less: Net earnings attributable to noncontrolling interests

Net earnings attributable to Skechers U.S.A., Inc.

Net earnings per share attributable to Skechers U.S.A., Inc.:
Basic

Diluted

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

Diluted

See accompanying notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCO**

**(In thousands)**

Net earnings
Other comprehensive income, net of tax:
Loss on foreign currency translation adjustment, net of tax

Comprehensive income
Less: Comprehensive income attributable to noncontrolling interests

Comprehensive income attributable to Skechers U.S.A., Inc.

See accompanying notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF EQUITY**

**(In thousands)**

| | SHARES | | AMOUNT | | | ACCUMULATED | |
|---|---|---|---|---|---|---|---|
| | CLASS A COMMON STOCK | CLASS B COMMON STOCK | CLASS A COMMON STOCK | CLASS B COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | OTHER COMPREHENSIVE LOSS | RETA EARN |
| Balance at December 31, 2011 | 37,959 | 11,297 | $ 38 | $ 11 | $ 320,877 | $ (894) | $ 53 |
| Net earnings | | | | | | | |
| Foreign currency translation adjustment | | | | | | (1,506) | |
| Contribution from noncontrolling interest of consolidated entity | | | | | | | |
| Distribution to noncontrolling interest of consolidated entity | | | | | | | |
| Stock compensation expense | | | | | 11,527 | | |
| Proceeds from issuance of common stock under the employee stock purchase plan | 186 | | | | 2,374 | | |
| Proceeds from issuance of common stock under the employee stock option plan | 853 | | 1 | | 1,050 | | |
| Tax benefit of stock options exercised | | | | | 450 | | |
| Conversion of Class B Common Stock into Class A Common Stock | 23 | (23) | | | | | |
| Balance at December 31, 2012 | 39,021 | 11,274 | $ 39 | $ 11 | $ 336,278 | $ (2,400) | $ 54 |
| Net earnings | | | | | | | 5 |
| Foreign currency translation adjustment | | | | | | (6,301) | |
| Contribution from noncontrolling interest of consolidated entity | | | | | | | |
| Distribution to noncontrolling interest of consolidated entity | | | | | | | |
| Stock compensation expense | | | | | 2,388 | | |
| Proceeds from issuance of common stock under the employee stock purchase plan | 149 | | | | 2,614 | | |
| Proceeds from issuance of common stock under the employee stock option plan | 114 | | 1 | | 332 | | |
| Tax benefit of stock options exercised | | | | | 531 | | |
| Conversion of Class B Common Stock into Class A Common Stock | 404 | (404) | | | | | |
| Balance at December 31, 2013 | 39,688 | 10,870 | $ 40 | $ 11 | $ 342,143 | $ (8,701) | $ 59 |
| Net earnings | | | | | | | 13 |
| Foreign currency translation adjustment | | | | | | (7,376) | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Contribution from noncontrolling interest of consolidated entity | | | | | | | |
| Distribution to noncontrolling interest of consolidated entity | | | | | | | |
| Stock compensation expense | | | | | 8,684 | | |
| Proceeds from issuance of common stock under the employee stock purchase plan | 102 | | | | 3,363 | | |
| Proceeds from issuance of common stock under the employee stock option plan | 97 | | | | | | |
| Tax benefit of stock options exercised | | | | | 1,446 | | |
| Conversion of Class B Common Stock into Class A Common Stock | 400 | (400) | | (1) | | | |
| Balance at December 31, 2014 | 40,287 | 10,470 | $ 40 | $ 10 | $ 355,636 | $ (16,077) | $ 73 |

See accompanying notes to consolidated financial statements

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

Cash flows from operating activities:
Net earnings
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:
Depreciation of property, plant and equipment
Amortization of deferred financing costs
Amortization of intangible assets
Provision for bad debts, returns and allowances
Tax benefit from share-based compensation
Non-cash share-based compensation
Deferred income taxes (benefits)
Loss (gain) on disposal of property, plant and equipment
(Increase) decrease in assets:
Receivables
Inventories
Prepaid expenses and other current assets
Other assets
Increase (decrease) in liabilities:
Accounts payable
Accrued expenses

Net cash provided by (used in) operating activities

Cash flows from investing activities:
Capital expenditures
Intangible additions

Net cash used in investing activities

Cash flows from financing activities:
Net proceeds from the issuances of stock through employee stock purchase plan and the exercise of stock options
Contribution from non-controlling interest of consolidated entity
Distributions to non-controlling interest of consolidated entity
Excess tax benefits from share-based compensation
Proceeds (payments) on short-term borrowings
Proceeds from long-term debt
Payments on long-term debt

Net cash (used in) provided by financing activities

Net increase (decrease) in cash and cash equivalents
Effect of exchange rates on cash and cash equivalents
Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of year

Supplemental disclosures of cash flow information:
Cash paid (received) during the year for:
Interest
Income taxes paid (recovered)

See accompanying notes to consolidated financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2014, 2013 and 2012**

## (1) THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The Company and Basis of Presentation

Skechers U.S.A., Inc. and subsidiaries (the Company ) designs, develops, markets and distributes footwear. The Co
retail stores and an e-commerce business as of December 31, 2014.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted
Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidat

(b) Use of Estimates

The Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues
and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally acc
the use of estimates relate primarily to revenue recognition, allowance for bad debts, returns, sales allowances and custo
intangibles and long-lived assets, litigation reserves and valuation of deferred income taxes. Actual results could differ fr

(c) Revenue Recognition

The Company recognizes revenue on wholesale sales when products are shipped and the customer takes title and assum
reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. This ge
which include amounts billed for shipping and handling costs, are recognized net of allowances for estimated returns, s
for estimated returns, discounts, doubtful accounts and chargebacks are recorded when related revenue is recorded. Rel
recorded as cost of sales. The Company recognizes revenue from retail and e-commerce sales at the point of sale. Sales
are excluded from reported revenues.

Royalty income is earned from licensing arrangements. Upon signing a new licensing agreement, the Company receive
prepaid royalties. These fees are initially deferred and recognized as revenue as earned. In addition, the Company re
licensed products. Typically, at each quarter-end the Company receives correspondence from licensees indicating the a
calculate and record the related royalties based on the terms of the agreement.

(d) Business Segment Information

The Company s operations and segments are organized along its distribution channels and consist of the following: d
e-commerce sales. Information regarding these segments is summarized in Note 13 Segment Information.

(e) Noncontrolling Interests

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Co
Company s domestic distribution facility. These joint ventures are variable interest entities ( VIE ) s under Acco
Company s determination of the primary beneficiary of a VIE considers all relationships between the Company and th
documents and other contractual arrangements. The Company has determined for its VIE s the Company is the pri
characteristics: (a) the power to direct the activities of a VIE that most significantly impact the

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entity s economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significa benefits from the entity that could potentially be significant to the variable interest entity. Accordingly, the Comp operations of these entities in its consolidated financial statements, even though the Company may not hold a majorit 2014 in the accounting treatment or characterization of any previously identified VIE. The Company continues to reas joint ventures are restricted in that they are not available for general business use outside the context of such joint ventu have no recourse to the Company. The Company does not have a variable interest in any unconsolidated VIEs.

(f) Fair Value of Financial Instruments

The carrying amount of the Company s financial instruments, which principally include cash and cash equivalents, i accrued expenses approximate fair value due to the relatively short maturity of such instruments.

The carrying amount of the Company s long-term borrowings are considered Level 2 liabilities, which approxima available to the Company for similar debt.

(g) Cash and Cash Equivalents

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

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

The Company provides a reserve charged against revenue and its receivables for estimated losses that may result f likelihood of uncollectibility, customers credit-worthiness is reviewed periodically based on external credit reporting se the Company s experience with the account, and it is adjusted accordingly. When a customer s account becomes signif the account and discontinues further shipments to that customer, minimizing further risk of loss. The Company deter uncollectible accounts, aged receivables, economic conditions in the customers countries or industries, historical los determined and specifically identified to be uncollectible are charged or written off against this reserve.

The Company also reserves for potential disputed amounts or chargebacks from its customers. The Company s cha based on factors such as historical trends, current economic conditions, and nature of the chargeback receivables. The allowances based on historical trends.

The likelihood of a material loss on an uncollectible account would be mainly dependent on deterioration in the ov environment. Reserves are fully provided for all probable losses of this nature. For receivables that are not specifically i based upon its historical loss rate as a percentage of sales.

(i) Inventories

Inventories, principally finished goods, are stated at the lower of cost (based on the first-in, first-out method) or mark handling fees and costs, which are subsequently expensed to cost of sales. The Company provides for estimated losses down the cost of inventory at the time such determinations are made. Reserves are estimated based upon inventory on h environment, and the expected net realizable value. The net realizable value is determined based upon estimated sales p store channels.

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(j) Property, Plant and Equipment

Depreciation and amortization of property, plant and equipment is computed using the straight-line method based on the

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

Property, plant and equipment subject to depreciation and amortization is reviewed for impairment whenever events o amount of an asset may not be recoverable. The Company reviews both quantitative and qualitative factors to assess if summary of store cash flows from its retail stores to assess potential impairment of the fixed assets and leasehold impr excess of 24 months are then reviewed in detail to determine if impairment exists. Recoverability of assets to be held a amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the f impairment charges during the years ended December 31, 2014, December 31, 2013 or December 31, 2012.

(k) Goodwill, Intangible Assets, Purchased Intangibles and Deferred Financing Costs

Goodwill and other intangible assets are measured for impairment at least annually and more often when events indicat include purchased intellectual property, artwork and designs, trade names and trademarks are amortized over their straight-line basis. Intangible assets, which were primarily allocated to the domestic wholesale segment, as of December

| |
|---|
| Intellectual property |
| Goodwill |
| Less accumulated amortization |
| Total intangible assets |

The Company recorded, in general and administrative expenses, amortization expense of $0.7 million, $0.9 million and 2013 and 2012, respectively. The Company recorded, in interest expense, amortization of deferred financing costs of $1 ended December 31, 2014, 2013 and 2012, respectively. The Company did not record impairment charges during the ye December 31, 2012.

(l) Income Taxes

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

(m) Foreign Currency Translation

In accordance with ASC 830-30, certain international operations use the respective local currencies as their functional c
U.S. Dollar as their functional currency. The Company considers the U.S. dollar as its reporting currency. The Comp
subsidiaries. Translation adjustments for these subsidiaries are included in other comprehensive income. Additionally,
in Switzerland, operates with a functional currency of the U.S. dollar. Resulting re-measurement gains and losses from th
earnings. Assets and liabilities of the foreign operations denominated in local currencies are translated at the rate o
expenses are translated at the weighted average rate of

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exchange during the period. Translations of intercompany loans of a long-term investment nature are included
comprehensive income.

(n) Net Earnings Per Share Attributable to Skechers U.S.A., Inc.

Basic earnings per share represents net earnings divided by the weighted average number of common shares outstanding
to the weighted average determined for basic earnings per share, includes potential common shares which would arise
stock method.

The Company has two classes of issued and outstanding common stock, Class A Common Stock and Class B Com
holders of Class B Common Stock have substantially identical rights, including rights with respect to any declared divid
to receive proceeds on liquidation or dissolution of the Company after payment of the Company s indebtedness. The tv
Class A Common Stock entitled to one vote per share while holders of Class B Common Stock are entitled to ten v
stockholders. The Company uses the two-class method for calculating net earnings per share. Basic and diluted net earni
Common Stock are identical. The shares of Class B Common Stock are convertible at any time at the option of the
share-for-share basis. In addition, shares of Class B Common Stock will be automatically converted into a like number c
to any person or entity which is not a permitted transferee.

The following is a reconciliation of net earnings and weighted average common shares outstanding for purposes of calcu

**Basic earnings per share**

Net earnings attributable to Skechers U.S.A., Inc.
Weighted average common shares outstanding
Basic earnings per share

**Diluted earnings per share**

Net earnings attributable to Skechers U.S.A., Inc.
Weighted average common shares outstanding
Dilutive stock options

Weighted average common shares outstanding

Diluted earnings per share

There were no options excluded from the computation of diluted earnings per share for the years ended December 31, 20

(o) Comprehensive Income

Comprehensive income consists of net earnings and foreign currency translation adjustments. Comprehensive inc
comprehensive income. Components of accumulated other comprehensive income consist of foreign currency t
non-controlling interests. The Company operates internationally through several foreign subsidiaries. Assets and liab
currencies are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the w
translation. The resulting translation adjustments along with translation adjustments related to intercompany loans
adjustment in other comprehensive income.

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(p) Advertising Costs

Advertising costs are expensed in the period in which the advertisements are first run or over the life of the endorseme
December 31, 2014, 2013 and 2012 was approximately $141.7 million, $118.5 million and $103.9 million, respective
$5.5 million at December 31, 2014 and 2013, respectively. Prepaid amounts outstanding at December 31, 2014 and 201
contracts, advertising in trade publications and media productions created which had not run as of December 31, 2014 ar

(q) Product Design and Development Costs

The Company charges all product design and development costs to general and administrative expenses when incurre
approximately $10.3 million, $9.2 million, and $9.5 million during the years ended December 31, 2014, 2013 and 2012,

(r) Warehouse and Distribution Costs

The Company s distribution network related costs are included in general and administrative expenses and are not allo
distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and pack
million and $119.3 million for 2014, 2013 and 2012, respectively.

(s) Recent Accounting Pronouncements

In May 2014, the FASB amended the FASB Accounting Standards Codification and created a new Topic ASC 60
recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the cons
exchange for those goods or services. The amendment supersedes the revenue recognition requirements in Topic 60
guidance throughout the Industry Topics of the Codification. For annual and interim reporting periods the mandatory ad
will be two methods of adoption allowed, either a full retrospective adoption or a modified retrospective adoption. The
606, but at the current time does not know what impact the new standard will have on revenue recognized and other ac
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, *P*
This amendment prescribes that an entity should evaluate whether there are conditions or events, considered in the ag
ability to continue as a going concern within one year after the date that the financial statements are issued. The amendr
and interim reporting periods beginning January 1, 2017. The Company is evaluating the impact on its consolidated fi
expect that the adoption of this standard will have a material impact on the Company s consolidated financial statements

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

Property, plant and equipment at December 31, 2014 and 2013 is summarized as follows (in thousands):

| |
|---|
| Land |
| Buildings and improvements |
| Furniture, fixtures and equipment |

Leasehold improvements

Total property, plant and equipment
Less accumulated depreciation and amortization

Property, plant and equipment, net

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### (3) ACCRUED EXPENSES

Accrued expenses at December 31, 2014 and 2013 are summarized as follows (in thousands):

| | |
|---|---|
| Accrued inventory purchases | |
| Accrued payroll and taxes | |
| Accrued expenses | |

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

On June 30, 2009, the Company entered into a $250.0 million secured credit agreement, (the Credit Agreement ) wit participants. On November 5, 2009, March 4, 2010, May 3, 2011, and September 30, 2013, the company entered into f (collectively, the Amended Credit Agreement ). The Amended Credit Agreement matures in June 2015. The Amende its subsidiaries to borrow up to $250.0 million based upon a borrowing base of eligible accounts receivable and invento at its request and upon satisfaction of certain conditions including obtaining the commitment of existing or prospectiv Borrowings bear interest at the Company s election based on LIBOR or a Base Rate (defined as the greatest of the base or one of the lenders prime rate), in each case, plus an applicable margin based on the average daily principal balance 0.75% or 1.00% for Base Rate loans and 1.50%, 1.75% or 2.00% for LIBOR loans). The company pays a monthly unu which varies based on the average daily principal balance of outstanding revolving loans and undrawn amounts of l Amended Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of $50.0 customary affirmative and negative covenants for secured credit facilities of this type, including a fixed charge coverage $40.0 million. In addition, the Amended Credit Agreement places limits on additional indebtedness that the Company certain transactions. The Company paid syndication and commitment fees of $6.7 million on this facility, which are bei of the facility. As of December 31, 2014, there is $0.1 million outstanding under this facility, which is classified as sho The remaining balance in short-term borrowings, as of December 31, 2014, is related to the Company s joint venture in

### (5) LONG-TERM BORROWINGS

Long-term borrowings at December 31, 2014 and 2013 is as follows (in thousands):

| | |
|---|---|
| Note payable to bank, due in monthly installments of $346.6 (includes principal and interest), variable rate interest at 3. annum, secured by property, balloon payment of $77,060 due October 2015 | |
| Note payable to bank, due in monthly installments of $531.4 (includes principal and interest), fixed rate interest at 3.54 secured by property, balloon payment of $12,635 due December 2015 | |
| Note payable to bank, due in monthly installments of $483.9 (includes principal and interest), fixed rate interest at 3.19 secured by property, balloon payment of $11,670 due June 2016 | |
| Note payable to TCF Equipment Finance, Inc., due in monthly installments of $30.5 (includes principal and interest), fi interest at 5.24% per annum, maturity date of July 2019 | |

Subtotal
Less current installments

Total long-term borrowings, excluding current installments

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The aggregate maturities of long-term borrowings at December 31, 2014 are as follows:

| |
|---|
| 2015 |
| 2016 |
| 2017 |
| 2018 |
| 2019 |
| Thereafter |

The Company s long-term debt obligations contain both financial and non-financial covenants, including cross-defau
non-financial covenants, including any cross default provisions, and financial covenants of its long-term borrowings as o

On April 30, 2010, the Company entered into a construction loan agreement (the Loan Agreement ), by and among HI
the JV ( HF-T1 ), Bank of America, N.A. and Raymond James Bank, FSB. Borrowings made pursuant to the Loan A
(the Loan ), which were used to construct the domestic distribution facility in Rancho Belago, California. Bor
Agreement s original maturity date was April 30, 2012, which was extended to November 30, 2012. On November
Agreement (the Modification ), which increased the borrowings under the Loan to $80.0 million and extended the m
million was used to (i) repay $54.7 million in outstanding borrowings under the original Loan, (ii) repay a loan of $18.3
(iii) repay a loan to the JV of $2.5 million including accrued interest from Skechers RB, LLC, a wholly-owned subsidi
fee of $1.9 million to HF, and (iv) pay distributions of $0.9 million to each of HF and Skechers RB, LLC, with (v) $0
Under the Modification, OneWest Bank, FSB is an additional lender that funded in part the increase to the Loan, and the
Association LIBOR rate plus a margin of 3.75%, which is no longer subject to a minimum rate. The Loan Agreem
covenants and events of default. As of December 31, 2014, there was $77.9 million outstanding under the Loan Agreem
installments of long-term borrowings. As of December 31, 2013, there was $78.9 million outstanding under the Loan Ag
long-term borrowings. The Company paid commitment fees of $0.6 million on the Loan, which are being amortized to in

On December 29, 2010, the Company entered into a master loan and security agreement (the Master Agreement ), by a
LLC, and an Equipment Security Note (together with the Master Agreement, the Loan Documents ), by and among us
Utah, as agent ( Agent ). The Company used the proceeds to refinance certain equipment already purchased and to
distribution facility. Borrowings made pursuant to the Master Agreement may be in the form of one or more equipme
Notes ) up to a maximum limit of $80.0 million and each for a term of 60 months. The Note entered into on the same
approximately $39.3 million. Interest will accrue at a fixed rate of 3.54% per annum. On June 30, 2011, the Company en
$36.3 million. Interest will accrue at a fixed rate of 3.19% per annum. As of December 31, 2014, the Company had $37.
included in current installments of long-term borrowings and $13.9 million is included in long-term borrowings.
outstanding on the Notes, which was included in long-term borrowings. The Company paid commitment fees of $0.
interest expense over the five-year life of the Notes.

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### (6) INCOME TAXES

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

| | |
|---|---|
| Federal: | |
| Current | |
| Deferred | |
| Total federal | |
| State: | |
| Current | |
| Deferred | |
| Total state | |
| Foreign: | |
| Current | |
| Deferred | |
| Total foreign | |
| Total income taxes (benefit) | |

The Company s provision for income tax expense (benefit) and effective income tax rate are significantly impacte earnings (loss) before income taxes. In the non-U.S. jurisdictions in which the Company has operations, the applicable s the U.S., ranging from 0% to 34%. The Company s provision for income tax expense (benefit) was calculated using th to the Company s pre-tax earnings (loss) in each jurisdiction, while the Company s effective tax rate is calculated by d income taxes.

The Company s earnings (loss) before income taxes and income tax expense (benefit) for 2014, 2013 and 2012 are as fo

| | Years Ende | | |
|---|---|---|---|
| | 2014 | | |
| Income tax jurisdiction | Earnings (loss) before income taxes | Income tax expense | Earnings (los before incom taxes |
| United States | $ 82,778 | $ 32,500 | $ 38,705 |
| Canada | 6,241 | 1,572 | 4,091 |
| Chile | 629 | 138 | 9,622 |
| Peoples Republic of China ( China ) | 15,201 | 1,179 | 6,148 |
| Jersey **(1)** | 77,555 | | 25,348 |
| Non-benefited loss operations **(2)** | (13,021) | | (15,841) |

| | | | |
|---|---|---|---|
| Other jurisdictions **(3)** | 21,997 | 3,795 | 14,142 |
| Earnings before income taxes | $ 191,380 | $ 39,184 | $ 82,215 |
| Effective tax rate **(4)** | | 20.5% | |

**(1)** Jersey does not assess income tax on corporate net earnings.

**(2)** Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being repo allowances: Japan, Brazil and India.

**(3)** Consists of entities in the following tax jurisdictions, each of which comprises not more than 5%, of 2014 cons France, Spain, Belgium, Italy, Netherlands, Switzerland, Malaysia, Thailand, Singapore, Hong Kong, Portugal an

**(4)** The effective tax rate is calculated by dividing income tax expense (benefit) by earnings before income taxes.

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For 2014, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 39% p
in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2014, as reflec
taxes in the U.S. was earnings of $82.8 million, with income tax expense of $32.5 million, an average rate of 39.3%, w
jurisdictions was earnings of $108.6 million, with aggregate income tax expense of $6.7 million, an average rate of 6.
before income taxes for the period of $191.4 million, and consolidated income tax expense for the period of $39.2 millio

For 2014, of the Company s $108.6 million in earnings before income tax earned outside the U.S., $77.6 million w
corporate earnings. In addition, there were foreign losses of $13.0 million for which no tax benefit was recognized duri
provision of offsetting valuation allowances. Individually, none of the other foreign jurisdictions included in Other juri
consolidated earnings (loss) before taxes.

Unremitted earnings of non-U.S. subsidiaries are expected to be reinvested outside of the U.S. indefinitely. Such earnin
of these subsidiaries or upon the remittance of dividends.

As of December 31, 2014, the Company had approximately $466.7 million in cash and cash equivalents, of which $193.
$193.2 million held by the Company s non-U.S. subsidiaries, approximately $42.8 million is available for repatriatio
applicable non-U.S. income and withholding taxes in excess of the amounts accrued in the Company s financial stateme
cash equivalents held in the U.S. and cash provided from operations are sufficient to meet the Company s liquidity
Company does not expect to repatriate any of the funds presently designated as indefinitely reinvested outside the U.S
chooses to repatriate some or all of the funds designated as indefinitely reinvested outside the U.S., the amount rep
applicable non-U.S. income and withholding taxes. As of December 31, 2014 and 2013, U.S. income taxes have not b
million and $226.0 million, respectively.

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

| |
|---|
| Expected income tax expense |
| State income tax, net of federal benefit |
| Rate differential on foreign income |
| Change in unrecognized tax benefits |
| Non-deductible expenses |
| Prior year R&D credit claims |
| Other |
| Change in valuation allowance |
| Total provision (benefit) for income taxes |
| Effective tax rate |

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The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liab
below (in thousands):

**DEFERRED TAX ASSETS:**

| |
|---|
| Deferred tax assets current: |
| Inventory adjustments |
| Accrued expenses |
| Allowances for bad debts and chargebacks |
| Total current assets |
| Deferred tax assets long term: |
| Loss carryforwards |
| Business credit carryforward |
| Share-based compensation |
| Valuation allowance |
| Total long term assets |
| Total deferred tax assets |
| Deferred tax liabilities current: |
| Prepaid expenses |
| Deferred tax liabilities long term: |
| Depreciation on property, plant and equipment |
| Total deferred tax liabilities |
| Net deferred tax assets |

The Company believes it is more likely than not that the results of future operations will generate sufficient taxable incor

Unused U.S. Federal tax credits and net operating losses carried forward from 2012 and prior tax years were used to redu
There were no Federal carry-forward amounts remaining as of December 31, 2014. Federal tax credits and net ope
December 31, 2013 were $7.8 million and $47.7 million, respectively. As of December 31, 2014 and 2013, no valuatio
been set up for these loss and tax credit carry-forwards as the carry-forwards were fully utilized in reducing taxable incor

State tax credit and net operating loss carry-forward amounts remaining as of December 31, 2014 were $7.2 million an
operating loss carry-forward amounts remaining as of December 31, 2013 were $6.0 million and $109.2 million, r
carry-forward amounts don t begin to expire until 2028 and 2021, respectively. As of December 31, 2014 and 2013, n
asset has been set up for these loss and credit carry-forwards as it is believed the carry-forwards will be fully utilized in r

As of December 31, 2014 and 2013, the Company had combined foreign net operating loss carry-forwards available to
million and $55.9 million, respectively. Some of these net operating losses expire beginning in 2015; however others ca
2014 and 2013, valuation allowances of $15.9 million and $16.5 million, respectively, had been set up against the relate

are not more likely than not to be fully utilized in reducing future taxable income.

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The balance of unrecognized tax benefits included in net prepaid expenses and long-term liabilities in the consolidated
year. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

| |
|---|
| Beginning balance |
| Additions for current year tax positions |
| Additions for prior year tax positions |
| Reductions for prior year tax positions |
| Settlement of uncertain tax positions |
| Reductions related to lapse of statute of limitations |
| Ending balance |

If recognized, $7.1 million of unrecognized tax benefits would be recorded as a reduction in income tax expense.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of income ta
year ended December 31, 2014, $0.1 million for the year ended December 31, 2013, and $0.2 million for the year ende
were $1.7 million and $1.8 million as of December 31, 2014 and 2013, respectively.

The amount of income taxes the Company pays is subject to ongoing audits by taxing jurisdictions around the world. Th
uncertain tax position is subject to its assessment of relevant risks, facts, and circumstances existing at that time. The C
these matters. However, the Company s future results may include favorable or unfavorable adjustments to its estim
impact the Company s effective tax rate.

As of December 31, 2014, the Company s tax filings are generally subject to examination in the U.S. and several Asian
after December 31, 2007. During the year, the Company reduced the balance of 2014 and prior year unrecognized tax be

The Company is currently under examination by the IRS for tax years 2007 through 2011. The Company is also under e
jurisdictions. During the year ended December 31, 2014, there was no reduction in the balance of 2014 and prior year u
examination. It is reasonably possible that certain federal, state and foreign examinations could be settled during the ne
2014 and prior year unrecognized tax benefits by $4.1 million.

## (7) COMMITMENTS AND CONTINGENCIES

### (a) Leases

The Company leases facilities under operating lease agreements expiring through November 2031. The Company pay
lease obligations. The Company also leases certain equipment and automobiles under operating lease agreements exp
expense for the years ended December 31, 2014, 2013 and 2012 approximated $107.0 million, $94.0 million and $88.7 m

Minimum lease payments, which take into account escalation clauses, are recognized on a straight-line basis over the
lease payments due to changes in an existing index, usually the consumer price index, are typically included in the c
adjustment is known. Reimbursements for leasehold improvements are recorded as liabilities and are amortized over t

period, are considered in the calculation of the minimum lease payments for the minimum lease term.

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Future minimum lease payments under noncancellable leases at December 31, 2014 are as follows (in thousands):

| |
|---|
| Year ending December 31: |
| 2015 |
| 2016 |
| 2017 |
| 2018 |
| 2019 |
| Thereafter |

(b) 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 consolida
loss is known or considered probable and the amount can be reasonably estimated. When determining the estimated los
estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and g
predict, particularly when the matters are in the procedural stages or with unspecified or indeterminate claims for dar
Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the consolidated fir
possible to estimate what litigation-related costs will be in the future.

(c) Product and Other Financing

The Company finances production activities in part through the use of interest-bearing open purchase arrangements v
arrangements currently bear interest at rates between 0% and 0.5% for 30- to 60- day financing. The amounts outstanc
and 2013 were $171.4 million and $69.1 million, respectively, which are included in accounts payable in the accompa
incurred by the Company under these arrangements amounted to $5.1 million in 2014, $3.9 million in 2013, and $3.
commitments with its foreign manufacturers at December 31, 2014 of $558.7 million, which are not included in the acco

**(8) NONCONTROLLING INTERESTS**

The following VIE s are consolidated into the Company s consolidated financial statements and the carrying amounts a
(in thousands):

| **HF Logistics-SKX, LLC** | **Dece** |
|---|---|
| Current assets | $ |

| | |
|---|---|
| Noncurrent assets | |
| Total assets | $ |
| Current liabilities | $ |
| Noncurrent liabilities | |
| Total liabilities | $ |

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| Distribution joint ventures (1) | Dec |
|---|---|
| Current assets | $ |
| Noncurrent assets | |
| Total assets | $ |
| Current liabilities | $ |
| Noncurrent liabilities | |
| Total liabilities | $ |

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

Noncontrolling interest earnings was $13.4 million, $6.1 million and $1.0 million for the years ended December 31, 20
share of net earnings or loss that is attributable to the Company s joint venture partners. HF Logistics-SKX, LLC ma
million during the years ended December 31, 2014 and 2013, respectively. Skechers China Limited made capital
December 31, 2014. The distribution joint venture partners made cash capital contributions of $0.5 million, $3.6 million
2014, 2013 and 2012, respectively.

**(9) STOCK COMPENSATION**

(a) Equity Incentive Plans

In January 1998, the Company s Board of Directors adopted the Amended and Restated 1998 Stock Option, Defe
incentive stock options ( ISOs ), non-qualified stock options and deferred and restricted stock (the Equity Incen
amendment to the plan to increase the number of shares of Class A Common Stock authorized for issuance under the pl
an amendment to the plan to increase the number of shares of Class A Common Stock authorized for issuance und
generally granted with an exercise price per share equal to the market price of a share of Class A Common Stock on the
exercisable over a three-year graded vesting period and expire ten years from the date of grant.

On April 16, 2007, the Company s Board of Directors adopted the 2007 Incentive Award Plan (the 2007 Plan ), v
stockholders on May 24, 2007. The Company s Board of Directors terminated the Equity Incentive Plan as of May
thereafter, although any awards then outstanding under the Equity Incentive Plan remain in force according to the ter
agreements. A total of 7,500,000 shares of Class A Common Stock are reserved for issuance under the 2007 Plan, wh
options, restricted stock and various other types of equity awards as described in the plan to the employees, consultants a
2007 Plan is administered by the Compensation Committee of the Company s Board of Directors.

(b) Valuation Assumptions

There were no stock options granted under the Equity Incentive Plan or the 2007 Plan during 2014, 2013 or 2012. The
intrinsic value of options exercised during 2013 and 2012 was $0.9 million and $1.9 million, respectively.

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(c) Stock-Based Payment Awards

Stock options granted pursuant to the 1998 Stock Option, Deferred Stock and Restricted Stock Plan and the 2007 Incen
follows:

| | SH |
|---|---|
| Outstanding at December 31, 2011 | 2 |
| Granted | |
| Exercised | (1 |
| Cancelled | |
| Outstanding at December 31, 2012 | |
| Granted | |
| Exercised | |
| Cancelled | |
| Outstanding at December 31, 2013 | |
| Granted | |
| Exercised | |
| Cancelled | |
| Outstanding at December 31, 2014 | |

There was no unrecognized compensation cost related to stock option shares as of December 31, 2014 and 2013, respect

A summary of the status and changes of nonvested shares related to the Equity Incentive Plans as of and for the period en

| | SH |
|---|---|
| Nonvested at December 31, 2011 | |
| Granted | |
| Vested/Released | ( |
| Cancelled | |
| Nonvested at December 31, 2012 | |
| Granted | |
| Vested/Released | |
| Cancelled | |
| Nonvested at December 31, 2013 | |
| Granted | 1, |

Vested/Released
Cancelled

Nonvested at December 31, 2014 1,

As of December 31, 2014, a total of 3,716,381 shares remain available for grant as equity awards under the 2007 Plan.

The Company recognized compensation expense of $8.7 million, $2.4 million and $11.5 million and related income tax
$0.5 million for grants under its stock-based compensation plans in the consolidated statements of operations for th
respectively. There was $48.7 million and $5.0 million of unrecognized compensation cost related to nonvested c
respectively. That cost is expected to be recognized over a weighted average period of 3.0 years and 2.7 years, respect
period ended December 31, 2014 and 2013 was $1.9 million and $1.4 million, respectively.

(d) Stock Purchase Plans

On April 16, 2007, the Company s Board of Directors adopted the 2008 Employee Stock Purchase Plan (the 2008 ES
ESPP on May 24, 2007. The 2008 ESPP became effective on January 1, 2008, and the Company s Board of Directo
additional granting of rights being permitted under

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the 1998 ESPP. The 2008 ESPP provides that a total of 3,000,000 shares of Class A Common Stock are reserved for iss be made available for sale is subject to automatic increases on the first day of each fiscal year during the term of the 2 intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, a employees to purchase Class A Common Stock at six-month intervals through payroll deductions, which may not exce Class A Common Stock purchased under the 2008 ESPP is 85% of the lower of the fair market value of the Class A offering period or on the applicable purchase date. Employees may end their participation in an offering at any t administered by the Company s Board of Directors.

During 2014, 2013 and 2012, 102,153 shares, 149,257 shares and 186,199 shares were issued under the 2008 ESPP f million, $2.6 million and $2.4 million, respectively.

**(10) STOCKHOLDERS EQUITY**

The authorized capital stock of the Company consists of 100,000,000 shares of Class A Common Stock, par value $.0 Stock, par value $.001 per share, and 10,000,000 shares of preferred stock, $.001 par value per share.

The Company has two classes of issued and outstanding common stock, Class A Common Stock and Class B Com holders of Class B Common Stock have substantially identical rights, including rights with respect to any declared divid to receive proceeds on liquidation or dissolution of the Company after payment of the Company s indebtedness. The tv Class A Common Stock entitled to one vote per share while holders of Class B Common Stock are entitled to ten v stockholders. The shares of Class B Common Stock are convertible at any time at the option of the holder into shares of addition, shares of Class B Common Stock will be automatically converted into a like number of shares of Class A Cor which is not a permitted transferee.

During 2014, 2013 and 2012, certain Class B stockholders converted 399,776 shares, 404,396 shares and 22,880 shares Common Stock.

**(11) BUSINESS AND CREDIT CONCENTRATIONS**

The Company generates the majority of its sales in the United States; however, several of its products are sold into vari the risks of doing business abroad. In addition, the Company operates in the footwear industry, which is impacted by t general economic environment and levels of consumer spending. Changes in the marketplace may significantly affec Company performs regular evaluations concerning the ability of customers to satisfy their obligations and provides receivable, which generally do not require collateral from customers, amounted to $166.9 million and $138.4 million b chargebacks at December 31, 2014 and 2013, respectively. Foreign accounts receivable, which generally are collateral and $103.5 million before allowance for bad debts, sales returns, and chargebacks at December 31, 2014 and 2013, res million, $558.1 million and $496.0 million for the years ended December 31, 2014, 2013 and 2012, respectively. The years ended December 31, 2014, 2013 and 2012 were $11.8 million, $2.6 million and $1.5 million, respectively. In allowance expense (recoveries) for the years ended December 31, 2014, 2013 and 2012 were $2.3 million, $0.2 million a

Assets located outside the United States consist primarily of cash, accounts receivable, inventory, property, plant and eq United States were $548.9 million and $413.2 million at December 31, 2014 and 2013, respectively.

During 2014, 2013 and 2012, no customer accounted for 10.0% or more of net sales. No customer accounted for mor 2014 or December 31, 2013. During 2014, 2013 and 2012, net sales to the five largest customers were approximately 15.

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The Company s top five manufacturers produced the following for the years ended December 31, 2014, 2013 and 2012,

Manufacturer #1
Manufacturer #2
Manufacturer #3
Manufacturer #4
Manufacturer #5

The majority of the Company s products are produced in China. The Company s operations are subject to the custo
limited to currency fluctuations and revaluations, custom duties and related fees, various import controls and other m
labor unrest and strikes and, in certain parts of the world, political instability. The Company believes it has acted to red
various factories. To date, these business risks have not had a material adverse impact on the Company s operations.

**(12) EMPLOYEE BENEFIT PLANS**

The Company has a 401(k) profit sharing plan covering all employees who are 21 years of age and have completed six
15.0% of annual compensation. Company contributions to the plan are discretionary and vest over a six year period. The
the years ended December 31, 2014, 2013 and 2012, respectively.

In May 2013, the Company established the Skechers U.S.A., Inc. Deferred Compensation Plan (the Plan ), which a
maximum amount to a future date on a nonqualified basis. The Plan provides for the Company to make discretionary co
determined by the Company s Compensation Committee. The Company did not make a contribution to the plan for the
the deferred compensation is recognized based on the fair value of the participants accounts as determined monthly. T
a reserve for the benefits payable under the Plan. The assets of the Trust and deferred liabilities are presented in the Com

**(13) SEGMENT INFORMATION**

The Company has four reportable segments domestic wholesale sales, international wholesale sales, retail sales, and
performance based primarily on net sales and gross margins. All other costs and expenses of the Company are anal
allocated to the Company s segments. Net sales, gross margins and identifiable assets for the domestic wholesale, intern
on a combined basis were as follows (in thousands):

| | |
|---|---|
| Net sales | |
| Domestic wholesale | $ |
| International wholesale | |

| | |
|---|---|
| Retail | |
| E-commerce | |
| Total | $ |

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| | |
|---|---|
| Gross profit | |
| Domestic wholesale | $ |
| International wholesale | |
| Retail | |
| E-commerce | |
| Total | $ |

| |
|---|
| Identifiable assets |
| Domestic wholesale |
| International wholesale |
| Retail |
| E-commerce |
| Total |

| |
|---|
| Additions to property, plant and equipment |
| Domestic wholesale |
| International wholesale |
| Retail |
| Total |

Geographic Information

The following summarizes the Company s operations in different geographic areas as of and for the years ended Decem

| | |
|---|---|
| Net Sales (1) | |
| United States | $ |
| Canada | |
| Other international (2) | |
| Total | $ |

| |
|---|
| Property, plant and equipment |
| United States |
| Canada |
| Other international (2) |
| Total |

(1) The Company has subsidiaries in Canada, the United Kingdom, Germany, France, Spain, Portugal, Italy, the N
sales within those respective countries and in some cases the neighboring regions. The Company has joint ventu
and Thailand that generate net sales from those countries. The Company also has a subsidiary in Switzerland th
net sales to distributors located in numerous non-European countries. Net sales are attributable to geographic regi

(2) Other international consists of Switzerland, the United Kingdom, Germany, Austria, France, Spain, Portuga
Malaysia, Singapore, Thailand, Brazil, Chile, Vietnam, India and Japan.

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**(14) RELATED PARTY TRANSACTIONS**

The Company paid approximately $160,000, $178,000, and $162,000 during 2014, 2013 and 2012, respectively, to the l lodging, food and events including the Company s holiday party at the Shade Hotel, which is owned and operated by l the Company, owns a 12% beneficial ownership interest in MIOC, and four other officers, directors and senior vi additional 5% beneficial ownership in MIOC. The Company had no outstanding accounts receivable or payable with MI

On July 29, 2010, the Company formed the Skechers Foundation (the Foundation ), which is a 501(c)(3) non-profit The Foundation is not a subsidiary of and is not otherwise affiliated with the Company, and the Company does not have officers and directors of the Company, Michael Greenberg, the Company s President, and David Weinberg, the Co Officer, are also officers and directors of the Foundation. During the year ended December 31, 2014, the Company did r the years ended December 31, 2013 and 2012, the Company contributed $1.1 million and $1.0 million, respectively, to th

The Company had receivables from officers and employees of $0.6 million and $0.4 million at December 31, 2014 and travel advances and incidental personal purchases on Company-issued credit cards. These receivables are short-term and of time. The Company had no other significant transactions with or payables to officers, directors or significant sharehol

**(15) SUBSEQUENT EVENTS**

The Company has evaluated events subsequent to December 31, 2014, to assess the need for potential recognition or d was determined that no subsequent events occurred that require recognition in the consolidated financial statements.

**(16) SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

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

| **2014** | **MARCH 31** | **JUNE 3** |
|---|---|---|
| Net sales | $ 546,518 | $ 587,05 |
| Gross profit | 240,403 | 269,37 |
| Net earnings attributable to Skechers U.S.A., Inc. | 30,965 | 34,80 |
| Net earnings per share: | | |
| Basic | $ 0.61 | $ 0.6 |
| Diluted | 0.61 | 0.6 |

| **2013** | **MARCH 31** | **JUNE 3** |
|---|---|---|
| Net sales | $ 451,621 | $ 428,24 |
| Gross profit | 192,732 | 194,89 |
| Net earnings attributable to Skechers U.S.A., Inc. | 6,680 | 7,09 |
| Net earnings per share: | | |
| Basic | $ 0.13 | $ 0.1 |
| Diluted | 0.13 | 0.1 |

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Attached as exhibits to this annual report on Form 10-K are certifications of our Chief Executive Officer ( CEO ) an accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act ). This Control the controls and controls evaluation referred to in the certifications.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclose Exchange Act is recorded, processed, summarized and reported within required time periods and that such informatio decisions regarding required disclosures. As of the end of the period covered by this annual report on Form 10-K, we car the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of ou 13a-15 of the Exchange Act. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and level as of such time.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as su Act. Internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financ accounting principles, and that our receipts and expenditures are being made only in accordance with autho

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use o effect on our financial statements.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the f *(2013),* our management has concluded that as of December 31, 2014, our internal control over financial reporting is effe

Our independent registered public accountants, BDO USA, LLP, audited the consolidated financial statements included an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2014, which

INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosur financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and o assurance that the control system s objectives will be met. The design of a control system must reflect the fact that the must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evalu

misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Cor
include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple e
the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The

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on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, c conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations result of error or fraud may occur and not be detected.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to our internal controls over financial reporting that have materially affected, or are reasonably financial reporting during the fourth quarter of 2014. The results of our evaluation are discussed above in Management s

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## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Skechers U.S.A., Inc.

Manhattan Beach, CA

We have audited Skechers U.S.A., Inc. and subsidiaries internal control over financial reporting as of December 31, Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commissi subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its a financial reporting, included in the accompanying Item 9A, Management s Report on Internal Control Over Financial R the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (Unit perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was m obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures a believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding t of financial statements for external purposes in accordance with generally accepted accounting principles. A company s policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly re the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of finan accounting principles, and that receipts and expenditures of the company are being made only in accordance with company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the may deteriorate.

In our opinion, Skechers U.S.A., Inc. and subsidiaries maintained, in all material respects, effective internal control ove on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United U.S.A., Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of earnings, co for each of the three years in the period ended December 31, 2014, and our report dated February 27, 2015 expressed an

/s/ BDO USA, LLP

Los Angeles, CA

February 27, 2015

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**ITEM 9B. OTHER INFORMATION**
None.

## PART III

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**
The information required by this Item 10 is hereby incorporated by reference from our definitive proxy statement, to
after the end of our 2014 fiscal year.

**ITEM 11. EXECUTIVE COMPENSATION**
The information required by this Item 11 is hereby incorporated by reference from our definitive proxy statement, to
after the end of our 2014 fiscal year.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AN**
The information required by this Item 12 is hereby incorporated by reference from our definitive proxy statement, to
after the end of our 2014 fiscal year.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPE**
The information required by this Item 13 is hereby incorporated by reference from our definitive proxy statement, to
after the end of our 2014 fiscal year.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**
The information required by this Item 14 is hereby incorporated by reference from our definitive proxy statement, to
after the end of our 2014 fiscal year.

## PART IV

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

1. Financial Statements: See Index to Consolidated Financial Statements and Financial Statement Schedule in
10-K.

2. Financial Statement Schedule: See Schedule II Valuation and Qualifying Accounts on page 77 of this annual

3. Exhibits: The exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as pa

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**SCHEDULE II VALUATION AND QUALIFYING ACCOUN**

**(in thousands)**

**Years Ended December 31, 2014, 2013, and 2012**

| DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | CHARG REVE COSTS EXPEI |
|---|---|---|
| Year-ended December 31, 2012: | | |
| Allowance for chargebacks | $ 2,340 | $ |
| Allowance for doubtful accounts | 10,331 | |
| Reserve for sales returns and allowances | 7,752 | |
| Reserve for shrinkage | 300 | |
| Reserve for obsolescence | 11,959 | |
| Year-ended December 31, 2013: | | |
| Allowance for chargebacks | $ 2,801 | $ |
| Allowance for doubtful accounts | 7,167 | |
| Reserve for sales returns and allowances | 6,954 | |
| Reserve for shrinkage | 300 | |
| Reserve for obsolescence | 8,849 | |
| Year-ended December 31, 2014: | | |
| Allowance for chargebacks | $ 2,490 | $ |
| Allowance for doubtful accounts | 5,980 | |
| Reserve for sales returns and allowances | 7,456 | |
| Reserve for shrinkage | 266 | |
| Reserve for obsolescence | 3,485 | |

See accompanying report of independent registered public accounting

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## INDEX TO EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION OF EXHIBIT |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation dated April 29, 1999 (incorporated Registrant s Registration Statement on Form S-1, as amended (File No. 333-60065 Commission on May 12, 1999). |
| 3.2 | Bylaws dated May 28, 1998 (incorporated by reference to exhibit number 3.2 of the Regis (File No. 333-60065) filed with the Securities and Exchange Commission on July 29, 1998) |
| 3.2 (a) | Amendment to Bylaws dated as of April 8, 1999 (incorporated by reference to exhibit num the year ended December 31, 2005). |
| 3.2 (b) | Second Amendment to Bylaws dated as of December 18, 2007 (incorporated by referenc Form 8-K filed with the Securities and Exchange Commission on December 20, 2007). |
| 4.1 | Form of Specimen Class A Common Stock Certificate (incorporated by reference to exhibit Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exc |
| 10.1 ** | Amended and Restated 1998 Stock Option, Deferred Stock and Restricted Stock Plan (in 10.1 of the Registrant s Registration Statement on Form S-1 (File No. 333-60065) filed w on July 29, 1998). |
| 10.1 (a)** | Amendment No. 1 to Amended and Restated 1998 Stock Option, Deferred Stock and Restr to exhibit number 4.4 of the Registrant s Registration Statement on Form S-8 (File No Exchange Commission on October 5, 2001). |
| 10.1 (b)** | Amendment No. 2 to Amended and Restated 1998 Stock Option, Deferred Stock and Restr to exhibit number 4.5 of the Registrant s Registration Statement on Form S-8 (File No. Exchange Commission on June 15, 2006). |
| 10.1 (c)** | Amendment No. 3 to Amended and Restated 1998 Stock Option, Deferred Stock and Restr to exhibit number 10.1 of the Registrant s Form 8-K filed with the Securities and Exchange |
| 10.2 ** | 2006 Annual Incentive Compensation Plan (incorporated by reference to Appendix A of t filed with the Securities and Exchange Commission on May 1, 2006). |
| 10.3 ** | 2007 Incentive Award Plan (incorporated by reference to exhibit number 10.1 of the Reg and Exchange Commission on May 24, 2007). |
| 10.4 ** | Form of Restricted Stock Agreement under 2007 Incentive Award Plan (incorporated b Registrant s Form 10-K for the year ended December 31, 2007). |
| 10.5 ** | 2008 Employee Stock Purchase Plan (incorporated by reference to exhibit number 10.2 Securities and Exchange Commission on May 24, 2007). |
| 10.5 (a)** | Amendment No. 1 to 2008 Employee Stock Purchase Plan (incorporated by reference to ex 10-Q for the quarter ended June 30, 2010). |
| 10.6 ** | Indemnification Agreement dated June 7, 1999 between the Registrant and its director reference to exhibit number 10.6 of the Registrant s Form 10-K for the year ended Decemb |

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|---|---|
| 10.6 (a)** | List of Registrant s directors and executive officers who entered into Indemnification Agr Registrant (incorporated by reference to exhibit number 10.6(a) of the Registrant s Form 10- |
| 10.7 | Registration Rights Agreement dated June 9, 1999, between the Registrant, the Greenbe (incorporated by reference to exhibit number 10.7 of the Registrant s Form 10-Q for the qua |
| 10.8 | Tax Indemnification Agreement dated June 8, 1999, between the Registrant and certain sh exhibit number 10.8 of the Registrant s Form 10-Q for the quarter ended June 30, 1999). |
| 10.9 + | Credit Agreement dated June 30, 2009, by and among the Registrant, certain of its subsi Agreement, and certain lenders including Wells Fargo Foothill, LLC, as co-lead arranger ar N.A., as syndication agent, and Banc of America Securities LLC, as the other co-lead arran number 10.1 of the Registrant s Form 10-Q/A filed with the Securities and Exchange Comm |
| 10.9 (a) | Amendment Number One to Credit Agreement dated November 5, 2009, by and among the are also borrowers under the Agreement, and certain lenders including Wells Fargo administrative agent, Bank of America, N.A., as syndication agent, and Banc of America Se (incorporated by reference to exhibit number 10.2 of the Registrant s Form 10-Q/A filed wi on November 16, 2010). |
| 10.9 (b) | Amendment Number Two to Credit Agreement dated March 4, 2010, by and among the Re also borrowers under the Agreement, and certain lenders including Wells Fargo Capital Fargo Foothill, LLC), as co-lead arranger and administrative agent, Bank of America, America Securities LLC, as the other co-lead arranger (incorporated by reference to exhibit for the quarter ended March 31, 2010). |
| 10.9 (c)+ | Amendment Number Three to Credit Agreement dated May 3, 2011, by and among the Reg also borrowers under the Agreement, and certain lenders including Wells Fargo Capital Fargo Foothill, LLC), as co-lead arranger and administrative agent, Bank of America, America Securities LLC, as the other co-lead arranger (incorporated by reference to exhibit for the quarter ended March 31, 2011). |
| 10.9 (d) | Amendment Number Four to Credit Agreement dated September 30, 2013, by and among the are also borrowers under the Agreement, and certain lenders including Wells Fargo Capital Fargo Foothill, LLC), as co-lead arranger and administrative agent, Bank of America, America Securities LLC, as the other co-lead arranger (incorporated by reference to exhibit for the quarter ended September 30, 2013). |
| 10.10 | Schedule 1.1 of Defined Terms to the Credit Agreement dated June 30, 2009, by and among that are also borrowers under the Agreement, and certain lenders including Wells Fargo Fo Banc of America Securities LLC (incorporated by reference to exhibit number 10.2 of Securities and Exchange Commission on July 7, 2009). |
| 10.11 | Amended and Restated Limited Liability Company Agreement dated April 12, 2010 betwee liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company (inco 10.11 of the Registrant s Form 10-K for the year ended December 31, 2011). |

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|---|---|
| 10.12 | Construction Loan Agreement dated as of April 30, 2010, by and among HF Logistics-SK subsidiary of a joint venture entered into between HF Logistics I, LLC and a wholly owne America, N.A., as administrative agent and as a lender, and Raymond James Bank FSB, as exhibit number 10.12 of the Registrant s Form 10-K for the year ended December 31, 2011). |
| 10.12 (a) | Modification to Construction Loan Agreement And Other Loan Documents dated No Logistics-SKX T1, LLC, which is a wholly owned subsidiary of a joint venture entered in wholly owned subsidiary of the Registrant, Bank of America, N.A., as administrative agent N.A., as a lender, and OneWest Bank, FSB, as a lender (incorporated by reference to exhibit n filed with the Securities and Exchange Commission on November 21, 2012). |
| 10.13 | Master Loan and Security Agreement, dated December 29, 2010, by and between the Regi Capital, LLC (incorporated by reference to exhibit number 10.1 of the Registrant s Form 8- Commission on January 4, 2011). |
| 10.14 | Equipment Security Note, dated December 29, 2010, by and among the Registrant, Banc of Bank of Utah, as agent (incorporated by reference to exhibit number 10.2 of the Registrant Exchange Commission on January 4, 2011). |
| 10.15 | Equipment Security Note, dated June 30, 2011, by and among the Registrant, Banc of Americ Utah, as agent (incorporated by reference to exhibit number 10.3 of the Registrant s Form 8- Commission on July 1, 2011). |
| 10.16 | Lease Agreement, dated February 8, 2002, between Skechers International, a subsidiary of t SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated the Registrant s Form 10-K for the year ended December 31, 2002). |
| 10.17 | Lease Agreement dated September 25, 2007 between the Registrant and HF Logistics I, LLC, Belago, California (incorporated by reference to exhibit number 10.1 of the Registrant s Exchange Commission on September 27, 2007). |
| 10.17 (a) | First Amendment to Lease Agreement, dated December 18, 2009, between the Registran distribution facility in Rancho Belago, California (incorporated by reference to exhibit numbe the quarter ended March 31, 2010). |
| 10.17 (b) | Second Amendment to Lease Agreement, dated April 12, 2010, between the Registran distribution facility in Rancho Belago, California (incorporated by reference to exhibit numbe the quarter ended September 30, 2010). |
| 10.17 (c) | Assignment of Lease Agreement, dated April 12, 2010, between HF Logistics I, LLC and distribution facility in Rancho Belago, California (incorporated by reference to exhibit numbe the quarter ended September 30, 2010). |
| 10.17 (d) | Third Amendment to Lease Agreement, dated August 18, 2010, between the Registrant and distribution facility in Rancho Belago, California (incorporated by reference to exhibit numbe the quarter ended September 30, 2010). |
| 10.18 | Lease Agreement dated May 20, 2008 between Skechers EDC SPRL, a subsidiary of the Regi regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by r Registrant s Form 10-Q for the quarter ended June 30, 2010). |
| 10.19 | Addendum to Lease Agreement dated May 20, 2008 between Skechers EDC SPRL, a subs Belgium III SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgiur number 10.4 of the Registrant s Form 10-Q for the quarter ended June 30, 2010). |

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| 10.20 | Skechers U.S.A., Inc. Deferred Compensation Plan (incorporated by reference to exhibit num filed with the Securities and Exchange Commission on May 3, 2013). |
| 21.1 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of the Chief Executive Officer pursuant Securities Exchange Act Rule 13a-14(a). |
| 31.2 | Certification of the Chief Financial Officer pursuant Securities Exchange Act Rule 13a-14(a). |
| 32.1 *** | Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Ox |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB | Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |

+ Confidential treatment has been granted by the SEC and/or a renewal is being requested from the SEC to the pre certain information in the exhibit pursuant to Rule 24b-2 of the Exchange Act. Such information was omitted fro the SEC.

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

*** In accordance with Item 601(b)(32)(ii) of Regulation S-K, this exhibit shall not be deemed filed for the pu subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Secu

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly
undersigned, thereunto duly authorized, in the City of Manhattan Beach, State of California on the 27th day of February

SKECHERS U.S.A., INC.

By: /s/ Robert Greenberg
Robert Greenberg
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following person
on the dates indicated.

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

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