

SKECHERS USA INC
Form 10-K
February 28, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 001-14429

SKECHERS U.S.A., INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

95-4376145
(I.R.S. Employer
Identification No.)

228 Manhattan Beach Blvd., Manhattan Beach,
California

90266

(Address of Principal Executive Offices)

(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on
Which Registered	
Class A Common Stock, \$0.001 par value	New York Stock Exchange

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

None

(Title of Class)

Edgar Filing: SKECHERS USA INC - Form 10-K

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

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

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of June 30, 2013, the aggregate market value of the voting and non-voting Class A and Class B Common Stock held by non-affiliates of the Registrant was approximately \$940.0 million based upon the closing price of \$24.01 of the Class A Common Stock on the New York Stock Exchange on such date.

The number of shares of Class A Common Stock outstanding as of February 15, 2014: 39,964,447.

The number of shares of Class B Common Stock outstanding as of February 15, 2014: 10,869,694.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement issued in connection with the 2014 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III.

Table of Contents

SKECHERS U.S.A., INC. AND SUBSIDIARIES
TABLE OF CONTENTS TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2013

PART I

ITEM 1.	<u>BUSINESS</u>	2
ITEM 1A.	<u>RISK FACTORS</u>	16
ITEM 1B.	<u>UNRESOLVED STAFF COMMENTS</u>	23
ITEM 2.	<u>PROPERTIES</u>	24
ITEM 3.	<u>LEGAL PROCEEDINGS</u>	24
ITEM 4.	<u>MINE SAFETY DISCLOSURES</u>	28

PART II

ITEM 5.	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	29
ITEM 6.	<u>SELECTED FINANCIAL DATA</u>	31
ITEM 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	32
ITEM 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	45
ITEM 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	46
ITEM 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	70
ITEM 9A.	<u>CONTROLS AND PROCEDURES</u>	70
ITEM 9B.	<u>OTHER INFORMATION</u>	73

PART III

ITEM 10.	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	73
ITEM 11.	<u>EXECUTIVE COMPENSATION</u>	73
ITEM 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	73
ITEM 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	73
ITEM 14.	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	73

PART IV

ITEM 15.	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	73
----------	--	----

This annual report includes our trademarks, including Skechers®, Skechers Performance®, Skechers GOrun®, Skechers GOwalk®, Skechers on-the-Go™,™,™, Skechers Cali™, Relaxed Fit®, Skechers Memory Foam™, Skech-Air®, BOBS™, Hot Lights®, Twinkle Toes®, Bella Ballerina™, Shape-ups®, Resalyte®, Resagrip®, Resamax®, each of which is our property. This report contains additional trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

Table of Contents

SPECIAL NOTE ON FORWARD LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements with regards to future revenue, projected 2014 results, earnings, spending, margins, cash flow, orders, expected timing of shipment of products, inventory levels, future growth or success in specific countries, categories or market sectors, continued or expected distribution to specific retailers, liquidity, capital resources and market risk, strategies and objectives. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or simply state future results, performance or achievements, and can be identified by the use of forward looking language such as believe, anticipate, expect, estimate, intend, plan, project, will be, will continue, will result, any variations of such words with similar meanings. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected in forward-looking statements, and reported results shall not be considered an indication of our company's future performance. Factors that might cause or contribute to such differences include:

the resignation of our former independent registered public accounting firm, and its withdrawal of its audit reports with respect to certain of our historical financial statements;

international, national and local general economic, political and market conditions including the timing and strength of the economic recovery in the United States and the uncertainty of market conditions in Europe;

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

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

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

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

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

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

sales levels during the spring, back-to-school and holiday selling seasons.

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely impact our business, financial condition and results of operations. Moreover, we operate in a very competitive and rapidly changing environment and new risk factors emerge from time to time. We cannot predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these inherent and changing risks and uncertainties, investors should not place undue reliance on forward-looking statements, which reflect our opinions only as of the date of this annual report, as a prediction of actual results. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document, except as otherwise required by reporting requirements of applicable federal and states securities laws.

Table of Contents

PART I

ITEM 1. BUSINESS

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

GENERAL

We design and market Skechers-branded lifestyle footwear for men, women and children, and performance footwear for men and women under the Skechers GO brand name. Our footwear reflects a combination of style, quality and value that appeals to a broad range of consumers. Our brands are sold through department and specialty stores, athletic and independent retailers, and boutiques as well as catalog and internet retailers. In addition to wholesale distribution, our footwear is available at our e-commerce website and our own retail stores. As of February 15, 2014, we operated 122 concept stores, 131 factory outlet stores and 71 warehouse outlet stores in the United States, and 44 concept stores and 26 factory outlets internationally. Our objective is to profitably grow our operations worldwide while leveraging our recognizable Skechers brand through our strong product lines, innovative advertising and diversified distribution channels.

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

We believe that brand recognition is an important element for success in the footwear business. We have aggressively marketed our brands through comprehensive advertising and promotional campaigns for men, women and children. During 2013, our Skechers brand was supported by print, television and outdoor campaigns for men and women; animated kids television campaigns featuring our own action heroes and characters; marathons and other events for our Skechers Performance Division; donation events surrounding our BOBS from Skechers charitable footwear program; and print, television and outdoor campaigns featuring our Skechers Performance and Skechers lifestyle endorsees. These endorsees included television personality Brooke Burke-Charvet, Hall of Fame quarterback Joe Montana, Dallas Mavericks owner Mark Cuban, Dodgers baseball legend Tommy Lasorda, Olympic medalist Meb, and recent addition, Danielle Bradbery, the youngest winner of The Voice.

Since December 1992, when we introduced our first line, Skechers USA Sport Utility Footwear, we have expanded our product offering and grown our net sales while substantially increasing the breadth and penetration of our account base. Our men s, women s and children s Skechers-branded product lines benefit from the Skechers reputation for contemporary and progressive styling, quality, comfort and affordability. Our lines that are not branded with the Skechers name benefit from our marketing support, quality management and expertise. To promote innovation and

brand relevance, we manage our product lines separately by utilizing dedicated sales and design teams. Our product lines share back office services in order to limit our operating expenses and fully utilize our management's vast experience in the footwear industry.

Table of Contents

SKECHERS LINES

We offer a wide array of Skechers-branded product lines for men, women, juniors and children. Within these product lines, we also have numerous categories, many of which have developed into well-known names. Most of these categories are marketed and packaged with unique shoe boxes, hangtags and in-store support. Management evaluates segment performance based primarily on net sales and gross margins; however, sales and costs are not allocated to specific product lines.

Lifestyle Brands

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

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

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

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

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

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

Skechers Sport. Our Skechers Sport footwear for men and women includes: (i) Skechers Memory Foam styles, (ii) Lightweight performance-inspired athletics, (iii) Classic Athletic-inspired styles and (iv) Sport sandals and boots.

Our Skechers Sport category is distinguished by its technical performance-inspired looks; however, we generally do not promote the technical performance features of these shoes. Skechers Sport is typically sold through specialty shoe stores, department stores and athletic footwear retailers.

Skechers Memory Foam styles are designed with a high-volume memory foam insole that will contour to your foot and provide greater comfort. The lightweight and ultra-soft looks also feature a flexible outsole and soft uppers, some of which feature bio-engineered mesh uppers. This category features bright, multi-color and solid basic colored uppers.

Our Lightweight performance-inspired athletics are designed with comfort and flexibility in mind. Careful attention is devoted to the cushioning, weight, materials, design and construction of the outsoles. Designed as a versatile, trend-right athletic shoe suitable for all-day wear, the product line features leather and nubuck uppers in both bright and classic athletic colors.

Classic athletic inspired styles are core proven looks that continue to be strong performers. With all-day comfort and durable rubber tread, these shoes are intended to be a mainstay of any footwear collection. Many of the designs are in white, black and natural shades, with some athletic accents. The uppers are designed in leather, suede and nubuck.

Table of Contents

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

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

BOBS from Skechers. The BOBS from Skechers line has grown to a year-round product with the addition of vulcanized looks and an at Home line. Primarily marketed to young women, the BOBS collection also includes footwear for kids, and men to a smaller degree. BOBS are available at department stores, specialty shoe stores and online retailers.

BOBS classic espadrille collection is designed in basic colors with canvas, tweed, crochet and boiled wool uppers, suede, and patterned fabrics. Some styles now include Skechers Memory Foam.

BOBS vulcanized looks have a very youthful and California lifestyle appeal. Primarily designed with canvas uppers but also jersey fabrics, the line features both classic retro looks and fresh colors and materials for a relevant style. Some styles now include Skechers Memory Foam.

The BOBS at Home collection for women is designed with our flexible rubber Keepsakes outsole, and features faux fur linings for the ultimate dorm or winter shoe. The uppers are primarily designed with tweeds, knitted or suede.

BOBS for Kids takes many of our successful women's styles into bright and patterned fabrics and embellished uppers for girls.

BOBS for men features basic slip-on and lace-up canvas styles as well as vulcanized. Some now include Skechers Memory Foam.

Skechers donates a pair of new shoes to a child in need through the purchase of BOBS. By the end of 2013, we had donated approximately 6.9 million pairs primarily to SolesforSouls, Samaritan's Feet International and Fashion Delivers, our charity donation partners, who in turn donate the shoes to various reputable charity organizations in the United States and around the world.

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

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

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

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

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

Table of Contents

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

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

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

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

Sporty Shorty by Skechers is a line of athletic-inspired sneakers for girls who like to wear sport-style footwear off the field. Many of the styles are lightweight and come in bright colors. Some also include lights. The product line is marketed with the character, Sporty Shorty.

Air-Mazing by Skechers is a lightweight line of colorful sneakers designed for older boys. The product line is marketed with the character, Air-Mazing Kid, who performs air tricks in his sneakers.

Skechers Kids and Skechers Cali for Girls are comprised primarily of shoes that are designed as takedowns of their adult counterparts, allowing the younger consumers the opportunity to wear the same popular styles as their older siblings and schoolmates. This takedown strategy maintains the product's integrity by offering premium leathers, hardware and outsoles without the costs involved in designing and developing new products. In addition, we adapt current fashions from our men's and women's lines by modifying designs and choosing colors and materials that are more suitable for the playful image that we have established in the children's footwear market. Each Skechers Kids line is marketed and packaged separately with a distinct shoe box. Skechers Kids shoes are available at department stores and specialty and athletic retailers.

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

Performance Brands

Skechers Performance. Skechers Performance is a collection of technical footwear designed with a focus on a specific activity to maximize performance and promote natural motion. Developed by the Skechers Performance Design Team, the footwear utilizes the latest advancements in materials and innovative design, including an ultra-lightweight Resalyte compound for the midsole and GOimpulse sensors for responsive feedback. Limited edition packs with all-weather protection or Skechers Nite Owl glow-in-the-dark technology are featured across multiple product lines. The footwear is available at athletic footwear retailers, department stores and specialty running stores.

Skechers GOrun. Skechers GOrun 3 is the latest in a collection of lightweight, flexible running shoes that features a midfoot strike design for efficient running and a low 4mm heel drop for a natural running feel. Skechers GOrun ride 3 features a similar design with enhanced cushioning for elevated comfort and support. Skechers GOrun ultra offers maximum cushioning for the most support with a 6mm heel drop. Skechers GOrun Speed 2 is the high-performance racing shoe worn by elite marathon runner Meb. This range of running product is marketed to serious runners and recreational runners alike.

Skechers GOwalk. Skechers GOwalk is designed for walking and casual wear, and offers performance features in a comfortable casual slip-on. The product line features a lightweight and flexible design to promote natural foot movement

Table of Contents

when walking. Skechers GOwalk 2 incorporates more performance technologies with a unique V-Stride outsole designed specifically to promote a natural walking stride. Skechers on-the-GO footwear fuses iconic designs and premium materials with Skechers Performance technologies for comfort and style.

Skechers GOBionic. Skechers GOBionic is engineered with inspiration from nature's ultimate design—the human body—to create a shoe that moves like the foot. Eighteen fully articulated bio-responsive zones offer flexibility, feel and ground conformity. Skechers GOBionic trail is designed for trail running with rugged, uneven running surfaces in mind. A proprietary Resagrip outsole increases the durability to handle wear-and-tear from tougher terrain and hydrophobic Skechers GODri technology shields feet from harsh elements. Skechers GOBionic engineering is also featured in select running, golfing and casual Skechers on-the-GO styles.

Skechers GOtrain. Skechers GOtrain is designed for the gym and features a wider forefoot and extended outriggers for maximum stability and control at lateral and medial strike points. This shoe is an all-encompassing trainer that meets the need of intense and rigorous workouts.

Skechers GOgolf. Skechers GOgolf is designed for the golf course and offers a zero heel drop design, which keeps feet in a neutral position that is low to the ground to promote a solid foundation while playing golf. A Resagrip outsole helps with traction control and a soft Resamax cushioned insole delivers comfort.

PRODUCT DESIGN AND DEVELOPMENT

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

We believe that our products' success is related to our ability to recognize trends in the footwear markets and to design products that anticipate and accommodate consumers' ever-evolving preferences. We are able to quickly translate the latest fashion trends into stylish, quality footwear at a reasonable price by analyzing and interpreting current and emerging lifestyle trends. Lifestyle trend information is compiled and analyzed by our designers from various sources, including the review and analysis of modern music, television, cinema, clothing, alternative sports and other trend-setting media; traveling to domestic and international fashion markets to identify and confirm current trends; consulting with our retail and e-commerce customers for information on current retail selling trends; participating in major footwear trade shows to stay abreast of popular brands, fashions and styles; and subscribing to various fashion and color information services. In addition, a key component of our design philosophy is to continually reinterpret and develop our successful styles in our brands' images.

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

needs of the target market.

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

For disclosure of product design and development costs during the last three fiscal years, see note 1 to the financial statements of this annual report.

Table of Contents

SOURCING

Factories. Our products are produced by independent contract manufacturers located primarily in China and, to a lesser extent, in Vietnam, Brazil and various other countries. We do not own or operate any manufacturing facilities. We believe that the use of independent manufacturers substantially increases our production flexibility and capacity, while reducing capital expenditures and avoiding the costs of managing a large production work force. For disclosure of information regarding the risks associated with having our manufacturing operations abroad and relying on independent contract manufacturers, see the relevant risk factors under Item 1A of this annual report.

When possible, we seek to use manufacturers that have previously produced our footwear, which we believe enhances continuity and quality while controlling production costs. We source product for styles that account for a significant percentage of our net sales from at least five different manufacturers. During 2013, five of our contract manufacturers accounted for approximately 59.9% of total purchases. One manufacturer accounted for 37.8%, and another accounted for 7.1% of our total purchases. To date, we have not experienced difficulty in obtaining manufacturing services or with the availability of raw materials.

We finance our production activities in part through the use of interest-bearing open purchase arrangements with certain of our Asian manufacturers. These facilities currently bear interest at a rate between 0% and 1.0% for 30- to 60-day financing, depending on the factory. We believe that the use of these arrangements affords us additional liquidity and flexibility. We do not have any long-term contracts with any of our manufacturers; however, we have long-standing relationships with many of our manufacturers and believe our relationships to be good.

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

Production Oversight. To safeguard product quality and consistency, we oversee the key aspects of production from initial prototype manufacture through initial production runs to final manufacture. Monitoring of all production is performed in the United States by our in-house production department and in Asia through an approximately 200-person staff working from our offices in China. We believe that our Asian presence allows us to negotiate supplier and manufacturer arrangements more effectively, decrease product turnaround time and ensure timely delivery of finished footwear. In addition, we require our manufacturers to certify that neither convicted, forced nor indentured labor (as defined under U.S. law), nor child labor (as defined by law in the manufacturer's country) is used in the production process, that compensation will be paid according to local law, and that the factory is in compliance with local safety regulations.

Quality Control. We believe that quality control is an important and effective means of maintaining the quality and reputation of our products. Our quality control program is designed to ensure that not only finished goods meet our established design specifications, but also that all goods bearing our trademarks meet our standards for quality. Our quality control personnel located in China perform an array of inspection procedures at various stages of the production process, including examination and testing of prototypes of key raw materials prior to manufacture,

samples and materials at various stages of production and final products prior to shipment. Our employees are on site at each of our major manufacturers to oversee production. For some of our lower volume manufacturers, our staff is on site during significant production runs or we will perform unannounced visits to their manufacturing sites to further monitor compliance with our manufacturing specifications.

ADVERTISING AND MARKETING

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

Table of Contents

shows are effective marketing tools to both consumers and wholesale accounts. We have historically budgeted advertising as a percentage of projected net sales.

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

To further build brand awareness and influence consumer spending, we have selectively signed endorsement agreements with celebrities whom we believe will reach new markets. Our endorsees Brooke Burke-Charvet, Mark Cuban, Joe Montana and Tommy Lasorda all appeared in print and television campaigns in 2013. The Skechers Performance Division launched in 2011, with a global marketing campaign starring elite distance runner and Olympic medalist Meb. Competing in Skechers GORun footwear, he recently achieved two back-to-back personal best marathon times during the 2011 New York City marathon and a first place finish in the 2012 Olympic Trials. Meb was the fastest American at the London Games, finishing fourth overall. From time to time, we may sign other celebrities to endorse our brand name and image in order to strategically market our products among specific consumer groups in the future.

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

Our television commercials are produced both in-house and through producers that we have utilized in the past who are familiar with our brands. In 2013, we developed commercials for men, women and children for our Skechers brands, including our animated spots for kids featuring our own action heroes and our performance collections. We have found these to be a cost-effective way to advertise on key national and cable programming during high selling seasons. In 2013, many of our television commercials were translated into multiple languages and aired in Brazil, Canada, the United Kingdom, France, the Benelux Region, Germany, Spain, Italy, Chile, Japan, Austria and Switzerland.

Outdoor. In an effort to reach consumers where they shop and in high-traffic areas as they travel to and from work, we continued our multi-level outdoor campaign that included kiosks in key malls across the United States plus billboards, transportation systems and telephone kiosks in North America, Brazil, Chile, Asia and Europe. In addition, we advertised on perimeter boards at soccer matches in several European countries. We believe these are effective and efficient ways to reach a broad range of consumers and leave a lasting impression for our brands.

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

Promotions and Grass Roots. By applying creative sales techniques via a broad spectrum of media, our marketing team seeks to build brand recognition and drive traffic to Skechers retail stores, websites and our retail partners locations. Skechers promotional strategies have encompassed in-store specials, charity events, product tie-ins and giveaways, and collaborations with national retailers and radio stations. In 2013, we appeared at walks and at numerous marathons in Boston, London, Paris, Santiago and other cities with Skechers Performance branded booths to allow runners the ability to try on and often buy our products. Our products were made available to consumers directly or through key accounts at many of these events. In addition, we partnered with several key accounts for BOBS donation events in cities throughout the United States.

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

Table of Contents

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

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

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

PRODUCT DISTRIBUTION CHANNELS

We have four reportable segments – domestic wholesale sales, international wholesale sales, retail sales and e-commerce sales. In the United States, our products are available through a network of wholesale customers comprised of department, athletic and specialty stores. Internationally, our products are available through wholesale customers in more than 100 countries and territories via our global network of distributors in addition to our subsidiaries in Asia, Europe, Canada and South America. Skechers owns and operates retail stores both domestically and internationally through three integrated retail formats – concept, factory outlet and warehouse outlet stores. Each of these channels serves an integral function in the global distribution of our products. Twenty-two distributors and seven licensees have opened 340 distributor-owned and licensee-owned Skechers retail stores in 48 countries as of December 31, 2013.

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

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

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

Table of Contents

Retail Stores. We pursue our retail store strategy through our three integrated retail formats: the concept store, the factory outlet store and the warehouse outlet store. Our three store formats enable us to promote the full Skechers product offering in an attractive environment that appeals to a broad group of consumers. In addition, most of our retail stores are profitable and have a positive effect on our operating results. We periodically review all of our stores for impairment. We prepare a summary of cash flows for each of our retail stores to assess potential impairment of the fixed assets and leasehold improvements. If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. In addition, we base the useful lives and related amortization or depreciation expense on our estimate of the period that the assets will generate revenues or otherwise be used by us. As of February 15, 2014, we owned and operated 122 concept stores, 131 factory outlet stores and 71 warehouse outlet stores in the United States, and 44 concept stores and 26 factory outlet stores internationally. During 2014, we plan to open 60 to 70 new stores.

Concept Stores

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

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

Factory Outlet Stores

Our factory outlet stores are generally located in manufacturers' direct outlet centers throughout the United States. In addition, we have 26 international outlet stores—five in England, three each in Canada, Chile, Japan and Spain, two

each in Germany and Italy, and one each in Austria, the Netherlands, Portugal, Wales and Scotland. Our factory outlet stores provide opportunities for us to sell discontinued and excess merchandise, thereby reducing the need to sell such merchandise to discounters at excessively low prices and potentially compromise the Skechers brand image. Skechers factory outlet stores range in size from approximately 1,400 to 9,000 square feet. Unlike our warehouse outlet stores, inventory in these stores is supplemented by certain first-line styles sold at full retail price points.

Warehouse Outlet Stores

Our free-standing warehouse outlet stores, which are primarily located throughout the United States, enable us to liquidate excess merchandise, discontinued lines and odd-size inventory in a cost-efficient manner. Skechers warehouse outlet stores are typically larger than our factory outlet stores and typically range in size from approximately 5,200 to 15,000 square feet. Our warehouse outlet stores enable us to sell discontinued and excess merchandise that would otherwise typically be sold to discounters at excessively low prices, which could otherwise compromise the Skechers brand image. We seek to

Table of Contents

open our warehouse outlet stores in areas that are in close proximity to our concept stores to facilitate the timely transfer of inventory that we want to liquidate as soon as practicable.

Store count, openings and closings for our domestic, international and joint venture stores are as follows:

	December 31, 2012		December 31, 2013	
	Number of Store	Number of Store	Number of Stores	Number of Store
	Locations	Opened during 2012	Closed during 2013	Locations
<u>Domestic stores</u>				
Concept	120	10	(7)	123
Outlet	119	13	(2)	130
Warehouse	61	8	(1)	68
Domestic stores total	300	31	(10)	321
<u>International stores</u>				
Concept	36	8	(1)	43
Outlet	18	8	0	26
International stores total	54	16	(1)	69
<u>Joint venture stores</u>				