SKECHERS USA INC
Form 10-Q
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from ____ to____

Commission File Number 001-14429

SKECHERS U.S.A., INC.

(Exact name of registrant as specified in its charter)

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

228 Manhattan Beach Blvd.

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

(310) 318-3100

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

THE NUMBER OF SHARES OF CLASS A COMMON STOCK OUTSTANDING AS OF MAY 2, 2016: 132,904,086.

THE NUMBER OF SHARES OF CLASS B COMMON STOCK OUTSTANDING AS OF MAY 2, 2016: 24,845,188.

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

FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par values)

	March 31, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$443,828	$507,991
Trade accounts receivable, less allowances of $29,381 in 2016 and $24,260 in 2015	542,396	343,930
Other receivables	21,600	18,661
Total receivables	563,996	362,591
Inventories	501,855	620,247
Prepaid expenses and other current assets	44,080	57,363
Total current assets	1,553,759	1,548,192
Property, plant and equipment, net	456,971	435,907
Deferred tax assets	16,164	17,825
Other assets	41,516	37,954
Total non-current assets	514,651	491,686
TOTAL ASSETS	$2,068,410	$2,039,878
LIABILITIES AND EQUITY		
Current Liabilities:		
Current installments of long-term borrowings	$14,420	$15,653
Short-term borrowings	58	59
Accounts payable	405,324	473,983
Accrued expenses	62,103	87,318
Total current liabilities	481,905	577,013
Long-term borrowings, excluding current installments	68,498	68,942
Deferred tax liabilities	8,760	8,507
Other long-term liabilities	10,424	9,682
Total non-current liabilities	87,682	87,131
Total liabilities	569,587	664,144
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, $0.001 par value; 10,000 shares authorized; none issued and outstanding	—	—
Class A Common Stock, $0.001 par value; 500,000 shares authorized;	129	127

128,773 and 127,324 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively		
Class B Convertible Common Stock, $0.001 par value; 75,000 shares authorized; 25,228 and 26,278 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	25	26
Additional paid-in capital	394,691	386,156
Accumulated other comprehensive loss	(21,253)	(26,305)
Retained earnings	1,065,164	967,552
Skechers U.S.A., Inc. equity	1,438,756	1,327,556
Noncontrolling interests	60,067	48,178
Total stockholders' equity	1,498,823	1,375,734
TOTAL LIABILITIES AND EQUITY	$2,068,410	$2,039,878

See accompanying notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2016	2015
Net sales	$978,794	$767,997
Cost of sales	546,642	435,457
Gross profit	432,152	332,540
Royalty income	2,625	1,882
	434,777	334,422
Operating expenses:		
Selling	53,878	49,092
General and administrative	242,349	197,141
	296,227	246,233
Earnings from operations	138,550	88,189
Other income (expense):		
Interest income	266	186
Interest expense	(1,388)	(2,836)
Other, net	2,779	(4,761)
Total other income (expense)	1,657	(7,411)
Earnings before income tax expense	140,207	80,778
Income tax expense	30,568	19,120
Net earnings	109,639	61,658
Less: Net earnings attributable to non-controlling interests	12,027	5,578
Net earnings attributable to Skechers U.S.A., Inc.	$97,612	$56,080
Net earnings per share attributable to Skechers U.S.A., Inc.:		
Basic	$0.63	$0.37
Diluted	$0.63	$0.37
Weighted average shares used in calculating net earnings per share attributable to Skechers U.S.A, Inc.:		
Basic	153,745	152,413
Diluted	154,818	153,430

See accompanying notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2016	2015
Net earnings	$109,639	$61,658
Other comprehensive income, net of tax:		
Gain (loss) on foreign currency translation adjustment	5,998	(4,621)
Comprehensive income	115,637	57,037
Less: Comprehensive income attributable to non-controlling interests	12,973	5,345
Comprehensive income attributable to Skechers U.S.A., Inc.	$102,664	$51,692

See accompanying notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net earnings	$109,639	$61,658
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization of property, plant and equipment	14,872	13,298
Amortization of other assets	2,621	309
Provision for bad debts and returns	7,330	4,057
Non-cash share-based compensation	4,656	4,400
Deferred income taxes	1,911	209
Loss on non-current assets	154	14
Gain on foreign currency exchange rates	(2,430)	—
(Increase) decrease in assets:		
Receivables	(201,312)	(175,488)
Inventories	122,178	59,228
Prepaid expenses and other current assets	11,727	4,959
Other assets	(2,639)	(6,050)
Increase (decrease) in liabilities:		
Accounts payable	(72,830)	(30,276)
Accrued expenses	(27,281)	15,258
Other long-term liabilities	37	—
Net cash used in operating activities	(31,367)	(48,424)
Cash flows from investing activities:		
Capital expenditures	(35,197)	(14,623)
Purchases of investments	(1,214)	(801)
Proceeds from sales of investments	131	104
Net cash used in investing activities	(36,280)	(15,320)
Cash flows from financing activities:		
Payments on long-term debt	(1,679)	(3,066)
Payments on short-term borrowings	—	(1,753)
Excess tax benefits from share-based compensation	3,879	2,138
Distributions to non-controlling interests of consolidated entity	(3,988)	(1,150)
Contribution from non-controlling interests of consolidated entity	2,905	—
Net cash provided by (used in) financing activities	1,117	(3,831)
Net decrease in cash and cash equivalents	(66,530)	(67,575)
Effect of exchange rates on cash and cash equivalents	2,367	(2,400)
Cash and cash equivalents at beginning of the period	507,991	466,685
Cash and cash equivalents at end of the period	$443,828	$396,710

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$1,370	$2,387
Income taxes	8,281	13,459

See accompanying notes to unaudited condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016 and 2015

(Unaudited)

(1) GENERAL

Basis of Presentation

The accompanying condensed consolidated financial statements of Skechers U.S.A., Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S X. Accordingly, they do not include certain notes and financial presentations normally required under U.S. GAAP for complete financial reporting. The interim financial information is unaudited, but reflects all normal adjustments and accruals which are, in the opinion of management, considered necessary to provide a fair presentation for the interim periods presented. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2016.

On August 21, 2015, the Company's board of directors approved a three-for-one stock split, effected in the form of a stock dividend, of both the Company's Class A and Class B common stock. The stock split was made on October 16, 2015 to stockholders of record at the close of business on October 2, 2015. All share numbers and per share amounts presented in the condensed consolidated financial statements reflect the three-for-one stock split.

Fair Value of Financial Instruments

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

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

As of August 12, 2015, the Company entered into an interest rate swap agreement concurrent with refinancing its domestic distribution center construction loan (see Note 2, Line of Credit, Short-Term and Long-Term Borrowings). The fair value of the interest rate swap was determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipt was based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with U.S. GAAP, credit valuation adjustments were incorporated to appropriately reflect both the Company's nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

The majority of the inputs used to value the interest rate swap were within Level 2 of the fair value hierarchy. As of March 31, 2016 and December 31, 2015, the interest rate swap was a Level 2 derivative and was classified as other long-term liabilities on the Company's condensed consolidated balance sheets.

Use of Estimates

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

Revenue Recognition

The Company recognizes revenue on wholesale sales when products are shipped and the customer takes title and assumes risk of loss, collection of the relevant receivable is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. This generally occurs at time of shipment. Wholesale sales, which include amounts billed for shipping and handling costs, are recognized net of allowances for estimated returns, sales allowances, discounts, and chargebacks. Allowances for estimated returns, discounts, and chargebacks are recorded when related revenue is recorded. Related costs paid to third-party shipping companies are recorded as cost of sales. The Company recognizes revenue from retail and e-commerce sales at the point of sale. Sales and value added taxes collected from retail customers are excluded from reported revenues.

Royalty income is earned from licensing arrangements. Upon signing a new licensing agreement, the Company receives up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue as earned. In addition, the Company receives royalty payments based on actual sales of the licensed products. Typically, at each quarter-end the Company receives correspondence from licensees indicating the actual sales for the period. This information is used to calculate and record the related royalties based on the terms of the agreement.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016 09"). The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update to the standard is effective for the Company's annual and interim reporting periods beginning January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact of ASU 2016-09 on its consolidated financial statements; however at the current time the Company does not know what impact the adoption of ASU 2016-09 will have on its consolidated financial statements, financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The new standard requires lessees to recognize most leases on the balance sheet. This will increase lessees' reported assets and liabilities. ASU 2016-02 is effective for public business entities for annual and interim reporting periods beginning January 1, 2019. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is currently evaluating the impact of ASU 2016-02 on its consolidated financial statements; however at the current time the Company does not know what impact the adoption of ASU 2016-02 will have on its consolidated financial statements, financial condition or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, "Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). This guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance simplifies presentation of debt issuance costs but does not address presentation or subsequent measurement of debt issue costs related to line of credit arrangements. In August 2015, the FASB issued ASU 2015-15 "Interest-Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" which indicates the Securities and Exchange Commission staff would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-03 was effective for the Company's annual and interim reporting periods beginning January 1, 2016 and was adopted on a retrospective basis in the first quarter of 2016. The adoption of ASU 2015-03 did not have a material impact on the Company's consolidated financial statements, financial condition or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, which amended the FASB Accounting Standards Codification ("ASC") and created a new Topic ASC 606, "Revenue from Contracts with Customers" ("ASC 606"). This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition," and most industry-specific guidance throughout the Industry Topics of the Codification. In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which further clarifies the implementation guidance on principal versus agent considerations contained in ASU 2014-09. For annual and interim reporting periods the mandatory adoption date of ASC 606 is January 1, 2018, and there will be two methods of adoption allowed, either a full retrospective adoption or a modified retrospective adoption. The Company is currently evaluating the impact of ASC 606, but at the current time does not know what impact the new standard will have on revenue recognized and other accounting decisions in future periods, if any, nor what method of adoption will be selected if the impact is material.

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

The Company and its subsidiaries had $1.7 million and $4.0 million of outstanding letters of credit as of March 31, 2016 and December 31, 2015, respectively, and approximately $0.1 million in short-term borrowings as of March 31, 2016 and December 31, 2015.

Long-term borrowings at March 31, 2016 and December 31, 2015 are as follows (in thousands):

	2016	2015
Note payable to banks, due in monthly installments of $121.3 (includes principal and interest), variable-rate interest at 2.43% per annum, secured by property, balloon payment of $62,843 due August 2020	$69,151	$69,515
Note payable to banks, due in monthly installments of $483.9 (includes principal and interest), fixed-rate interest at 3.19% per annum, secured by property, balloon payment of $11,670 due June 2016	12,649	13,886
Note payable to TCF Equipment Finance, Inc., due in monthly installments of $30.5, (includes principal and interest) fixed-rate interest at 5.24% per annum, maturity date of July 2019	1,118	1,194
Subtotal	82,918	84,595
Less current installments	14,420	15,653
Total long-term borrowings	$68,498	$68,942

The Company's long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. The Company is in compliance with its non-financial covenants, including any cross-default provisions, and financial covenants of its long-term borrowings as of March 31, 2016 and December 31, 2015.

On June 30, 2015, the Company entered into a $250.0 million loan and security agreement, subject to increase by up to $100 million, (the "Credit Agreement"), with the following lenders: Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association. The Credit Agreement matures on June 30, 2020. The Credit Agreement replaces the credit agreement dated June 30, 2009, which expired on June 30, 2015. The Credit Agreement permits the Company and certain of its subsidiaries to borrow based on a percentage of eligible accounts receivable plus the sum of (a) the lesser of (i) a percentage of eligible inventory to be sold at wholesale and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at wholesale, plus (b) the lesser of (i) a percentage of the value of eligible inventory to be sold at retail and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at retail, plus (c) the lesser of (i) a percentage of the value of eligible in-transit inventory and (ii) a percentage of the net orderly liquidation value of eligible in-transit inventory. Borrowings bear interest at the Company’s election based on (a) LIBOR or (b) the greater of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5% and (iii) LIBOR for a 30-day period plus 1.0%, in each case, plus an applicable margin based on the average daily principal balance of revolving loans available under the Credit Agreement. The Company pays a monthly unused line of credit fee of 0.25%, payable on the first day of each month in arrears, which is based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of $100.0 million. The Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the Company and its subsidiaries to, among other things, incur debt, grant liens, make certain acquisitions, dispose assets, effect a change of control of the Company, make certain restricted payments including certain dividends and stock redemptions, make certain investments or loans, enter into certain transactions with affiliates and certain prohibited uses of proceeds. The Credit Agreement also requires compliance with a minimum fixed-charge coverage ratio if Availability drops below 10% of the Revolver Commitments (as such terms are defined in the Credit Agreement) until the date when no event of default has existed and Availability has been over 10% for 30 consecutive days. The Company paid closing and arrangement fees of $1.1 million on this facility which are included in Other Assets in the condensed consolidated balance sheets, and are being amortized to interest expense over the five-year life of the facility. As of March 31, 2016 and December 31, 2015, there was $0.1 million outstanding under the Company’s credit facilities, classified as short-term borrowings in the Company’s condensed consolidated balance sheets.

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

On August 11, 2015, the JV, through HF-T1, entered into an amended and restated loan agreement with Bank of America, N.A., as administrative agent and as a lender, and CIT Bank, N.A. (formerly known as OneWest Bank, FSB) and Raymond James Bank, N.A., as lenders (collectively, the "Amended Loan Agreement"), which amends and restates in its entirety the Construction Loan Agreement and the Modification.

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

By utilizing an interest rate swap, the Company is exposed to credit-related losses in the event that the counterparty fails to perform under the terms of the derivative contract. To mitigate this risk, the Company enters into derivative contracts with major financial institutions based upon credit ratings and other factors. The Company continually assesses the creditworthiness of its counterparties. As of March 31, 2016, all counterparties to the interest rate swap had performed in accordance with their contractual obligations.

On December 29, 2010, the Company entered into a master loan and security agreement (the “Master Agreement”), by and between the Company and Banc of America Leasing & Capital, LLC, and an Equipment Security Note (together with the Master Agreement, the “Loan Documents”), by and among the Company, Banc of America Leasing & Capital, LLC, and Bank of Utah, as agent (“Agent”). The Company used the proceeds to refinance certain equipment already purchased and to purchase new equipment for use in the Rancho Belago distribution facility. Borrowings made pursuant to the Master Agreement may be in the form of one or more equipment security notes (each a “Note,” and, collectively, the “Notes”) up to a maximum limit of $80.0 million and each for a term of 60 months. The First Note entered into on the same date as the Master Agreement represented a borrowing of approximately $39.3 million (“the First Note”). Interest accrued at a fixed rate of 3.54% per annum on the First Note. The Company made the final payment on the First Note on December 29, 2015.

On June 30, 2011, the Company entered into another Note agreement for approximately $36.3 million (“the Second Note”). Interest accrues at a fixed rate of 3.19% per annum on the Second Note. As of March 31, 2016 and December 31, 2015, the Company had $12.6 million and $13.9 million outstanding on the Second Note, which is included in current installments of long-term borrowings. The Company paid commitment fees of $0.8 million on the Notes, which have been amortized to interest expense over the five-year life of the Notes.

(3) STOCKHOLDERS' EQUITY

During the three months ended March 31, 2016, 1,050,862 shares of Class B common stock were converted into shares of Class A common stock. During the three months ended March 31, 2015, 766,566 shares of Class B common stock were converted into shares of Class A common stock.

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

	Three Months Ended March 31,	
	2016	2015
Non-controlling interests, beginning of period	$48,178	$58,858
Net earnings attributable to non-controlling interests	12,027	5,578
Foreign currency translation adjustment	945	(233)
Capital contributions by non-controlling interests	2,905	—
Capital distributions to non-controlling interests	(3,988)	(1,150)
Non-controlling interests, end of period	$60,067	$63,053

(4) NON-CONTROLLING INTERESTS

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Company's products primarily throughout Asia or to construct the Company's domestic distribution facility. These joint ventures are variable interest entities ("VIEs") under ASC 810-10-15-14. The Company's determination of the primary beneficiary of a VIE considers all relationships between the Company and the VIE, including management agreements, governance documents and other contractual arrangements. The Company has determined for its VIEs that the Company is the primary beneficiary because it has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Accordingly, the Company includes the assets and liabilities and results of operations of these entities in its condensed consolidated financial statements, even though the Company may not hold a majority equity interest. There have been no changes during 2016 in the accounting treatment or characterization of any previously identified VIE. The Company continues to reassess these relationships quarterly. The assets of these joint ventures are restricted in that they are not available for general business use outside the context of such joint ventures. The holders of the liabilities of each joint venture have no recourse to the Company. The Company does not have a variable interest in any unconsolidated VIEs.

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

HF Logistics-SKX, LLC	March 31, 2016	December 31, 2015
Current assets	$1,593	$2,111
Non-current assets	112,613	113,928
Total assets	$114,206	$116,039
Current liabilities	$2,886	$2,461
Non-current liabilities	69,507	69,951
Total liabilities	$72,393	$72,412

Distribution joint ventures (1)	March 31, 2016	December 31, 2015
Current assets	$214,687	$154,060
Non-current assets	40,140	34,782
Total assets	$254,827	$188,842
Current liabilities	$108,762	$68,198
Non-current liabilities	65	62
Total liabilities	$108,827	$68,260

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

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

	Three Months Ended March 31, 2016	2015
Net earnings attributable to non-controlling interests	$12,027	$5,578
Distributions to:		
HF Logistics-SKX, LLC	(905)	(1,150)
Skechers China Limited	(3,083)	—
Contributions from:		
India Distribution Joint Ventures	2,905	—

In February 2015, the FASB issued ASU No. 2015-02, “Amendments to the Consolidation Analysis” (“ASU 2015-02”). ASU 2015-02 amends the consolidation guidance for variable interest entities (“VIEs”) and general partners’ investments in limited partnerships and modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities. The amendment was effective for the Company’s annual and interim reporting periods beginning January 1, 2016, and was adopted in the first quarter of fiscal 2016 using a modified retrospective approach. The adoption ASU 2015-02 did not have a material impact on the Company’s condensed consolidated financial statements, financial condition or results of operations.

(5) EARNINGS PER SHARE

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

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

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

Basic earnings per share	Three Months Ended March 31, 2016	2015
Net earnings attributable to Skechers U.S.A., Inc.	$97,612	$56,080
Weighted average common shares outstanding	153,745	152,413
Basic earnings per share attributable to Skechers U.S.A., Inc.	$0.63	$0.37

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

Diluted earnings per share	Three Months Ended March 31, 2016	2015
Net earnings attributable to Skechers U.S.A., Inc.	$97,612	$56,080
Weighted average common shares outstanding	153,745	152,413
Dilutive effect of nonvested shares	1,073	1,017
Weighted average common shares outstanding	154,818	153,430
Diluted earnings per share attributable to Skechers U.S.A., Inc.	$0.63	$0.37

(6) STOCK COMPENSATION

For stock-based awards the Company recognized compensation expense based on the grant date fair value. Share-based compensation expense was $4.7 million and $4.4 million for the three months ended March 31, 2016 and 2015, respectively.

A summary of the status and changes of the Company's nonvested shares related to the 2007 Incentive Award Plan (the "2007 Plan"), as of and for the three months ended March 31, 2016 is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2015	2,725,500	$ 15.77
Granted	1,430,000	31.75
Vested	(397,500)	9.43
Cancelled	(12,000)	17.47
Nonvested at March 31, 2016	3,746,000	22.53

As of March 31, 2016, there was $74.0 million of unrecognized compensation cost related to nonvested common shares. The cost is expected to be amortized over a weighted average period of 2.7 years.

(7) INCOME TAXES

Income tax expense and the effective tax rate for the three months ended March 31, 2016 and 2015 were as follows (in thousands, except the effective tax rate):

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
Income tax expense	$30,568		$19,120	
Effective tax rate	21.8	%	23.7	%

The tax provision for the three months ended March 31, 2016 and 2015 was computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. The Company estimates its ongoing effective annual tax rate in 2016 to be between 22% and 25%, which is subject to management's quarterly review and revision, if necessary.

The Company's provision for income tax expense and effective income tax rate are significantly impacted by the mix of the Company's domestic and foreign earnings (loss) before income taxes. In the foreign jurisdictions in which the Company has operations, the applicable statutory rates range from 0% to 34%, which is generally significantly lower than the U.S. federal and state combined statutory rate of approximately 39%. For the three months ended March 31, 2016, the decrease in the effective tax rate was primarily due to an increase in the amount of foreign earnings relative to domestic earnings as compared to the same period in the prior year.

As of March 31, 2016, the Company had approximately $443.8 million in cash and cash equivalents, of which $221.8 million, or 50.0%, was held outside the U.S. Of the $221.8 million held by the Company's foreign subsidiaries, approximately $55.8 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable foreign income and withholding taxes in excess of the amounts accrued in the Company's condensed consolidated financial statements. Under current applicable tax laws, if the Company chooses to repatriate some or all of the funds designated as indefinitely reinvested outside the U.S., the amount repatriated would be subject to U.S. income taxes and applicable foreign income and withholding taxes. The Company does not expect to repatriate any of the funds presently designated as indefinitely reinvested outside the U.S. As such, the Company did not provide for deferred income taxes on its accumulated undistributed earnings of the Company's foreign subsidiaries.

In November 2015, the FASB issued ASU No. 2015 17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"), which amends the guidance requiring companies to separate deferred income tax liabilities and assets into current and non-current amounts in a classified statement of financial position. This accounting guidance simplifies the presentation of deferred income taxes, such that deferred tax liabilities and assets are classified as non-current in a classified statement of financial position. ASU 2015-17 will be effective for annual and interim reporting periods beginning January 1, 2017, with early adoption permitted. In the first quarter of 2016, the Company early adopted ASU 2015-17 on a retrospective basis. For all periods presented, deferred income taxes are reported as "Deferred tax assets" or "Deferred tax liabilities" on the condensed consolidated balance sheets. Prior to adoption, the Company reported deferred income taxes in either "Deferred tax assets," "Other assets," or "Other long-term liabilities" on the condensed consolidated balance sheets, depending on whether the net current deferred income taxes and net non-current deferred income taxes were in an asset or liability position, respectively. The change in presentation for the three months ended March 31, 2016 resulted in a reduction of current assets and deferred tax liabilities, and an increase of non-current assets for all periods presented. The adoption of ASU 2015-17 did not have a material impact on the Company's consolidated financial statements, financial condition or results of operations.

(8) BUSINESS AND CREDIT CONCENTRATIONS

The Company generates the majority of its sales in the United States; however, several of its products are sold into various foreign countries, which subjects the Company to the risks of doing business abroad. In addition, the Company operates in the footwear industry, and its business depends on the general economic environment and levels of consumer spending. Changes in the marketplace may significantly affect management's estimates and the Company's performance. Management performs regular evaluations concerning the ability of customers to satisfy their obligations and provides for estimated doubtful accounts. Domestic accounts receivable, which generally do not require collateral from customers, were $259.9 million and $180.2 million before allowances for bad debts, sales returns and chargebacks at March 31, 2016 and December 31, 2015, respectively. Foreign accounts receivable, which in some cases are collateralized by letters of credit, were equal to $311.9 million and $188.0 million before allowance for bad debts, sales returns and chargebacks at March 31, 2016 and December 31, 2015, respectively. The Company's credit losses attributable to write-offs for the three months ended March 31, 2016 and 2015 were $4.8 million and $1.1 million, respectively.

Assets located outside the U.S. consist primarily of cash, accounts receivable, inventory, property, plant and equipment, and other assets. Net assets held outside the United States were $862.9 million and $773.5 million at March 31, 2016 and December 31, 2015, respectively.

The Company's net sales to its five largest customers accounted for approximately 13.8% and 17.1% of total net sales for the three months ended March 31, 2016 and 2015, respectively. No customer accounted for more than 10.0% of the Company's net sales during the three months ended March 31, 2016 and 2015. No customer accounted for more than 10.0% of net trade receivables at March 31, 2016 or December 31, 2015. As of December 31, 2015, one customer accounted for 10.6% of trade receivables. No other customer accounts for more than 10.0% of trade receivables at December 31, 2015.

The Company’s top five manufacturers produced the following, as a percentage of total production, for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
Manufacturer #1	26.4%	34.4%
Manufacturer #2	11.1%	8.4%
Manufacturer #3	10.5%	6.9%
Manufacturer #4	4.4%	4.5%
Manufacturer #5	3.5%	4.1%
	55.9%	58.3%

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

(9) SEGMENT AND GEOGRAPHIC REPORTING INFORMATION

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

	Three Months Ended March 31,	
	2016	2015
Net sales:		
Domestic wholesale	$360,270	$321,328
International wholesale	420,035	285,571
Retail	198,489	161,098
Total	$978,794	$767,997

	Three Months Ended March 31,	
	2016	2015
Gross profit:		
Domestic wholesale	$140,516	$125,730
International wholesale	176,020	113,377
Retail	115,616	93,433
Total	$432,152	$332,540

	March 31, 2016	December 31, 2015
Identifiable assets:		
Domestic wholesale	$1,013,857	$1,086,554
International wholesale	801,411	713,424
Retail	253,142	239,900
Total	$2,068,410	$2,039,878

	Three Months Ended March 31,	
	2016	2015
Additions to property, plant and equipment:		

Domestic wholesale	$10,136	$5,688
International wholesale	15,979	3,555
Retail	9,082	5,380
Total	$35,197	$14,623

Geographic Information:

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

	Three Months Ended March 31,	
	2016	2015
Net Sales (1):		
United States	$512,237	$453,164
Canada	37,069	23,242
Other international (2)	429,488	291,591
Total	$978,794	$767,997

	March 31, 2016	December 31, 2015
Property, plant and equipment, net:		
United States	$362,931	$356,704
Canada	8,680	8,447
Other international (2)	85,360	70,756
Total	$456,971	$435,907

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

(2) Other international includes Asia, Central America, Europe, North America, and South America.

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

(10) RELATED PARTY TRANSACTIONS

On July 29, 2010, the Company formed the Skechers Foundation (the "Foundation"), which is a 501(c)(3) non-profit entity that does not have any shareholders or members. The Foundation is not a subsidiary of, and is not otherwise affiliated with the Company, and the Company does not have a financial interest in the Foundation. However, two officers and directors of the Company, Michael Greenberg, the Company's President, and David Weinberg, the Company's Chief Operating Officer and Chief Financial Officer, are also officers and directors of the Foundation. During the three months ended March 31, 2016, the Company made a contribution of $250,000 to the Foundation. During the three months ended March 31, 2015, the Company did not make any contributions to the Foundation.

(11) LITIGATION

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

Personal Injury Lawsuits Involving Shape-ups — As previously reported, on February 20, 2011, Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group were named as defendants in a lawsuit that alleged, among other things, that Shape-ups are defective and unreasonably dangerous, negligently designed and/or manufactured, and do not conform to representations made by the Company, and that the Company failed to provide adequate warnings of alleged risks associated with Shape-ups. In total, the Company is named as a defendant in 1,141 currently pending cases (some on behalf of multiple plaintiffs) filed in various courts that assert further varying injuries but employ similar legal theories and assert similar claims to the first case, as well as claims for breach of express and implied warranties, loss of consortium, and fraud. Although there are some variations in the relief sought, the plaintiffs generally seek compensatory and/or economic damages, exemplary and/or punitive damages, and attorneys' fees and costs.

On December 19, 2011, the Judicial Panel on Multidistrict Litigation issued an order establishing a multidistrict litigation ("MDL") proceeding in the United States District Court for the Western District of Kentucky entitled In re Skechers Toning Shoe Products Liability Litigation, case no. 11-md-02308-TBR. Since 2011, a total of 1,235 personal injury cases have been filed in or transferred to the MDL proceeding and 414 additional individuals have submitted claims by plaintiff fact sheets. The Company has resolved 481 personal injury claims in the MDL proceedings, comprised of 90 that were filed as formal actions and 391 that were submitted by plaintiff fact sheets. The Company has also settled 1,332 claims in principle—1,101 filed cases and 231 claims submitted by plaintiff fact sheets— either directly or pursuant to a global settlement program that has been approved by the claimants' attorneys (described in greater detail below). Further, 42 cases in the MDL proceeding have been dismissed either voluntarily or on motions by the Company and 38 unfiled claims submitted by plaintiff fact sheet have been abandoned. Between the consummated settlements and cases subject to the settlement program, all but two personal injury cases pending in the MDL have been or are expected to be resolved. On August 6, 2015, the Court entered an order staying all deadlines, including trial, pending further order of the Court.

Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group also have been named as defendants in a total of 72 personal injury actions filed in various Superior Courts of the State of California that were brought on behalf of 920 individual plaintiffs (360 of whom also submitted MDL court-approved questionnaires for mediation purposes in the MDL proceeding). Of those cases, 68 were originally filed in the Superior Court for the County of Los Angeles (the "LASC cases"). On August 20, 2014, the Judicial Council of California granted a petition by the Company to coordinate all personal injury actions filed in California that relate to Shape-ups with the LASC cases (collectively, the "LASC Coordinated Cases"). On October 6, 2014, three cases that had been pending in other counties were transferred to and coordinated with the LASC Coordinated Cases. On April 17, 2015, an additional case was transferred to and coordinated with the LASC Coordinated Cases. Thirty-five actions brought on behalf of a total of 476 plaintiffs have been settled and dismissed. The Company has also settled in principle an additional 31 actions brought on behalf of 405 plaintiffs pursuant to a global settlement program that has been approved by the plaintiffs' attorneys (described in greater detail below). One single plaintiff lawsuit and the claims of 28 additional plaintiffs in multi-plaintiff lawsuits have been dismissed entirely either voluntarily or on motion by the Company. The claims of 21 additional persons have been dismissed in part, either voluntarily or on motions by the Company. Thus, taking into account both consummated settlements and cases subject to the settlement program, only five lawsuits on behalf of a total of ten plaintiffs are expected to remain in the LASC Coordinated Cases. Discovery is continuing in those five remaining cases. No trial dates have been set.

In other state courts, a total of 12 personal injury actions (some on behalf of numerous plaintiffs) have been filed that have not been removed to federal court and transferred to the MDL. Ten of those actions have been resolved and dismissed. One of the remaining actions that includes the claims of 65 plaintiffs, has been settled in principle pursuant to a global settlement program that has been approved by the plaintiffs' attorneys (described in greater detail below). The last remaining action in a state court other than California was recently filed in Missouri on January 4, 2016 on behalf of a single plaintiff. The Company has not yet been served in that action.

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

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

The Company has reserved $4.0 million for costs and potential exposure related to the settlement of the foregoing personal injury lawsuits. Although the Company's reserve of $4.0 million appropriately reflects the current estimated range of loss, it is not possible to predict the final outcome of the related proceedings or any other pending legal proceedings and, consequently, the final exposure and costs associated with pending legal proceedings could have a further material adverse impact on the Company's result of operations or financial position.

In accordance with U.S. GAAP, the Company records a liability in its condensed consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings are inherently difficult to predict, particularly when the matters are in the procedural stages or with unspecified or indeterminate claims for damages, potential penalties, or fines. Accordingly, the Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the condensed consolidated financial statements as of March 31, 2016, nor is it possible to estimate what litigation-related costs will be in the future.

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and Notes thereto in Item 1 of this report and our annual report on Form 10-K for the year ended December 31, 2015.

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

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

- international economic, political and market conditions including the uncertainty of the China markets and of sustained recovery in our European markets;
- our ability to maintain our brand image and to anticipate, forecast, identify, and respond to changes in fashion trends, consumer demand for the products and other market factors;
- our ability to remain competitive among sellers of footwear for consumers, including in the highly competitive performance footwear market;
- our ability to sustain, manage and forecast our costs and proper inventory levels;
- the loss of any significant customers, decreased demand by industry retailers and the cancellation of order commitments;
- our ability to continue to manufacture and ship our products that are sourced in China, which could be adversely affected by various economic, political or trade conditions, or a natural disaster in China;
- our ability to predict our revenues, which have varied significantly in the past and can be expected to fluctuate in the future due to a number of reasons, many of which are beyond our control;
- sales levels during the spring, back-to-school and holiday selling seasons; and
- other factors referenced or incorporated by reference in our annual report on Form 10-K for the year ended December 31, 2015 under the captions "Item 1A: Risk Factors" and "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

FINANCIAL OVERVIEW

Our net sales for the three months ended March 31, 2016 were $978.8 million, an increase of $210.8 million, or 27.4%, as compared to net sales of $768.0 million for the three months ended March 31, 2015, which was primarily attributable to increased sales across several key divisions including Women's GO, Women's Sport, Women's Active, Cali, Men's U.S.A., and Men's Sport divisions. Gross margins increased to 44.2% for the three months ended March 31, 2016 from 43.3% for the same period in the prior year, primarily from increased margins in our international wholesale segment due to increased sales by our subsidiaries. Earnings from operations increased $50.4 million to $138.6 million, or 14.2% of net sales, for the three months ended March 31, 2016 from $88.2 million, or 11.5% of net sales, for the same period in 2015. Net earnings attributable to Skechers U.S.A., Inc. were $97.6 million for the three months ended March 31, 2016, an increase of $41.5 million, or 74.1%, compared to net earnings of $56.1 million in the prior-year period. The increase in net earnings attributable to Skechers U.S.A., Inc. for the three months ended March 31, 2016 was primarily the result of increased sales across all of our segments following the introduction of new products. Diluted net earnings per share attributable to Skechers U.S.A., Inc. for the three months ended March 31, 2016 were $0.63 which reflected a 70.3% increase from the $0.37 diluted earnings per share reported in the same prior-year period. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2016.

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

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

	Three Months Ended March 31,	
	2016	2015
Percentage of revenues by segment:		
Domestic wholesale	36.8 %	41.8 %
International wholesale	42.9 %	37.2 %
Retail	20.3 %	21.0 %
Total	100.0%	100.0%

As of March 31, 2016, we owned and operated 525 stores, which included 395 domestic retail stores and 130 international retail stores. We have established our presence in what we believe to be most of the major domestic retail markets. During the first three months of 2016, we opened one domestic outlet store, five domestic warehouse stores, one international concept store and two international outlet stores. In addition, we closed one domestic concept store. We review all of our stores for impairment annually, or more frequently if events occur that may be an indicator of impairment, and we carefully review our under-performing stores and consider the potential for non-renewal of leases upon completion of the current term of the applicable lease.

During the remainder of 2016, we intend to focus on: (i) continuing to develop new lifestyle and performance product at affordable prices to increase product count for all customers, (ii) continuing to manage our inventory and expenses to be in line with expected sales levels, (iii) growing our international business, (iv) strategically expanding our retail distribution channel by opening another 55 to 65 stores during the remainder of the year, and (v) completing our equipment upgrades at our European Distribution Center to increase our capacity and efficiency and to better manage our growth worldwide.

RESULTS OF OPERATIONS

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

	Three Months Ended March 31,			
	2016		2015	
Net sales	$978,794	100.0 %	$767,997	100.0 %
Cost of sales	546,642	55.8	435,457	56.7
Gross profit	432,152	44.2	332,540	43.3
Royalty income	2,625	0.3	1,882	0.2
	434,777	44.5	334,422	43.5
Operating expenses:				
Selling	53,878	5.5	49,092	6.4
General and administrative	242,349	24.8	197,141	25.6
	296,227	30.3	246,233	32.0
Earnings from operations	138,550	14.2	88,189	11.5
Interest income	266	—	186	—
Interest expense	(1,388)	(0.1)	(2,836)	(0.4)
Other, net	2,779	0.2	(4,761)	(0.6)
Earnings before income tax expense	140,207	14.3	80,778	10.5
Income tax expense	30,568	3.1	19,120	2.5
Net earnings	109,639	11.2	61,658	8.0
Less: Net earnings attributable to non-controlling interests	12,027	1.2	5,578	0.7
Net earnings attributable to Skechers U.S.A., Inc.	$97,612	10.0 %	$56,080	7.3 %

THREE MONTHS ENDED March 31, 2016 COMPARED TO THREE MONTHS ENDED March 31, 2015

Net sales

Net sales for the three months ended March 31, 2016 were $978.8 million, an increase of $210.8 million, or 27.4%, as compared to net sales of $768.0 million for the three months ended March 31, 2015. The increase in net sales was primarily attributable to increased sales in all of our segments primarily from the introduction of new styles and lines of footwear.

Our domestic wholesale net sales increased $39.0 million, or 12.1%, to $360.3 million for the three months ended March 31, 2016 from $321.3 million for the three months ended March 31, 2015. The increase in our domestic wholesale segment was attributable to strong sales and significant growth in several key divisions including Women's GO, Women's Sport, Cali, Men's U.S.A., and Men's Sport divisions. The average selling price per pair within the domestic wholesale was $22.87 per pair for the three months ended March 31, 2016 compared to $22.86 per pair for the same period last year. The increase in the domestic wholesale segment's net sales came on a 12.1% unit sales volume increase to 15.8 million pairs for the three months ended March 31, 2016 from 14.1 million pairs for the same period in 2015.

Our international wholesale segment sales increased $134.4 million, or 47.1%, to $420.0 million for the three months ended March 31, 2016 compared to sales of $285.6 million for the three months ended March 31, 2015. Our international wholesale sales consist of direct subsidiary sales – those we make to department stores and specialty retailers – and sales to our distributors, who in turn sell to retailers in various international regions where we do not sell directly. Direct subsidiary sales increased $128.8 million, or 58.6%, to $348.8 million for the three months ended March 31, 2016 compared to net sales of $220.0 million for the three months ended March 31, 2015. The largest sales increases during the quarter came from our subsidiaries in the United Kingdom, Germany, Canada and our joint venture in China, primarily due to increased sales of product from our Women's Sport, Women's Active, Women's GO, and Men's Sport divisions. Our distributor sales increased $5.6 million to $71.2 million for the three months ended March 31, 2016, an 8.5% increase from sales of $65.6 million for the three months ended March 31, 2015. The largest sales increases during the quarter came from sales to our distributors in the United Arab Emirates ("UAE"), Scandinavia, and the Philippines, which were partially offset by reduced sales to South Korea. These were primarily driven by increased sales of products from our Women's GO, Men's Sport, Boys and Girls divisions.

Our retail segment sales increased $37.4 million to $198.5 million for the three months ended March 31, 2016, a 23.2% increase over sales of $161.1 million for the three months ended March 31, 2015. The increase in retail sales was primarily attributable to increased comparable store sales of 9.8% resulting from increased sales across several key divisions including Women's GO, Women's Sport, Girls, and Men's Sport divisions. During the first quarter of 2016, we opened one domestic outlet store, five domestic warehouse stores, one international concept store, and two international outlet stores. In addition, we closed one domestic concept store. For the three months ended March 31, 2016, our domestic retail sales increased 15.3% compared to the same period in 2015, which was primarily attributable to positive comparable domestic store sales of 8.2% and a net increase of 30 domestic stores. Our international retail store sales increased 59.0% compared to the same period in 2015, which was primarily attributable to positive comparable international store sales of 17.7% and a net increase of 42 international stores compared to the prior period.

Gross profit

Gross profit for the three months ended March 31, 2016 increased $99.7 million to $432.2 million as compared to $332.5 million for the three months ended March 31, 2015. Gross profit as a percentage of net sales, or gross margins, increased to 44.2% for three-month period ended March 31, 2016 from 43.3% for the same period in the prior year, primarily due to increased international wholesale margins. Our domestic wholesale segment gross profit increased $14.8 million to $140.5 million for the three months ended March 31, 2016 as compared to $125.7 million for the three months ended March 31, 2015. Domestic wholesale margins were 39.0% for the three months ended March 31, 2016 compared to 39.1% for the same period in the prior year.

Gross profit for our international wholesale segment increased $62.6 million, or 55.3%, to $176.0 million for the three months ended March 31, 2016 as compared to $113.4 million for the three months ended March 31, 2015. International wholesale gross margins were 41.9% for the three months ended March 31, 2016 compared to 39.7% for the three months ended March 31, 2015. Gross margins for our direct subsidiary sales increased to 45.0% for the three months ended March 31, 2016 compared to 43.6% for the three months ended March 31, 2015, which was primarily attributable to price increases and the reduced impact of foreign currency exchange rates when compared to the prior year period. Gross margins for our distributor sales were 26.7% for the three months ended March 31, 2016 and 2015, respectively.

Gross profit for our retail segment increased $22.2 million, or 23.7%, to $115.6 million for the three months ended March 31, 2016 as compared to $93.4 million for the three months ended March 31, 2015. Gross margins for all our company-owned domestic and international stores and our e-commerce business were 58.2% for the three months ended March 31, 2016 as compared to 58.0% for the three months ended March 31, 2015. Gross margins for our domestic stores, which includes e-commerce, were 60.7% and 59.4% for the three months ended March 31, 2016 and 2015, respectively. The increase in domestic retail gross margins was primarily attributable to higher margins on our Women's Go, Women's Sport and Men's Sport footwear. Gross margins for our international stores were 50.3% for the three months ended March 31, 2016 as compared to 51.8% for the three months ended March 31, 2015. The decrease in gross margins for the international retail segment primarily resulted from a sales mix of products with slightly lower margins.

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

Selling expenses

Selling expenses increased by $4.8 million, or 9.7%, to $53.9 million for the three months ended March 31, 2016 from $49.1 million for the three months ended March 31, 2015. As a percentage of net sales, selling expenses were 5.5% and 6.4% for the three months ended March 31, 2016 and 2015, respectively. The increase in selling expenses was primarily attributable to higher advertising expenses of $7.2 million for the three months ended March 31, 2016.

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

General and administrative expenses

General and administrative expenses increased by $45.2 million, or 22.9%, to $242.3 million for the three months ended March 31, 2016 from $197.1 million for the three months ended March 31, 2015. As a percentage of sales, general and administrative expenses were 24.8% and 25.6% for the three months ended March 31, 2016 and 2015, respectively. The $45.2 million increase in general and administrative expenses was primarily attributable to approximately $25.0 million related to supporting our international operations due to increased sales volumes and $13.5 million of operating expenses attributable to opening an additional 72 stores since March 31, 2015. In addition, the expenses related to our distribution network, including purchasing, receiving, inspecting, allocating, warehousing and packaging of our products increased $4.9 million to $53.7 million for the three months ended March 31, 2016 as compared to $48.8 million for the same period in the prior year. The increase in warehousing costs was primarily due to increased sales volumes worldwide.

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

Other income (expense)

Interest income was $0.3 million and $0.2 million for the three months ended March 31, 2016 and 2015, respectively. Interest expense decreased to $1.4 million for the three months ended March 31, 2016 compared to $2.8 million for the same period in 2015. The decrease was primarily attributable to decreased interest paid on our distribution center loans. Interest expense was also incurred on amounts owed to our foreign manufacturers. Other income increased $7.6 million to $2.8 million for the three months ended March 31, 2016 as compared to other expense of $4.8 million for the same period in 2015. The increase in other income was primarily attributable to foreign currency exchange gain of $2.8 million for the three months ended March 31, 2016, as compared to a foreign currency exchange loss of $4.9 million for the three months ended March 31, 2015. This increased foreign currency exchange gain was primarily attributable to the impact of a weaker U.S. dollar on our intercompany investments in our foreign subsidiaries.

Income taxes

Income tax expense and the effective tax rate for the three months ended March 31, 2016 and 2015 were as follows (in thousands, except the effective tax rate):

	Three Months Ended March 31,	
	2016	2015
Income tax expense	$30,568	$19,120
Effective tax rate	21.8 %	23.7 %

The tax provision for the three months ended March 31, 2016 and 2015 was computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. We estimate our ongoing effective annual tax rate in 2016 to be between 22% and 25%, which is subject to management’s quarterly review and revision, if necessary.

Our provision for income tax expense and effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (loss) before income taxes. In the foreign jurisdictions in which we have operations, the applicable statutory rates range from 0% to 34%, which is generally significantly lower than the U.S. federal and state combined statutory rate of approximately 39%. For the three months ended March 31, 2016, the decrease in the effective tax rate was primarily attributable to an increase in the amount of foreign earnings relative to domestic earnings as compared to the same period in the prior year.

As of March 31, 2016, we had approximately $443.8 million in cash and cash equivalents, of which $221.8 million, or 50.0%, was held outside the U.S. Of the $221.8 million held by our foreign subsidiaries, approximately $55.8 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable foreign income and withholding taxes in excess of the amounts accrued in our condensed consolidated financial statements. We do not expect to repatriate any of the funds presently designated as indefinitely reinvested outside the U.S. Under current applicable tax laws, if we choose to repatriate some or all of the funds designated as indefinitely reinvested outside the U.S., the amount repatriated would be subject to U.S. income taxes and applicable foreign income and withholding taxes. As such, we did not provide for deferred income taxes on accumulated undistributed earnings of our foreign subsidiaries.

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

Net earnings attributable to non-controlling interests for the three months ended March 31, 2016 increased $6.4 million to $12.0 million as compared to $5.6 million for the same period in 2015 primarily attributable to increased profitability by our joint ventures. Non-controlling interests represents the share of net earnings that is attributable to our joint venture partners.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our working capital at March 31, 2016 was $1.1 billion, an increase of $0.1 billion from working capital of $1.0 billion at December 31, 2015. Our cash and cash equivalents at March 31, 2016 was $443.8 million, compared to $508.0 million at December 31, 2015. This decrease in cash and cash equivalents of $64.2 million, after consideration of the effect of exchange rates, was the result of our net earnings of $109.6 million and decreased cash flows from inventories of $122.2 million offset by an increase in cash flows from accounts receivable of $201.3 million due to increased revenues and a decrease in cash flows from accounts payable of $72.8 million. Our primary sources of operating cash are collections from customers on wholesale and retail sales. Our primary uses of cash are inventory purchases, selling, general and administrative expenses and capital expenditures.

Operating Activities

For the three months ended March 31, 2016, net cash used in operating activities was $31.4 million as compared to $48.4 million for the three months ended March 31, 2015. The $17.0 million increase in cash flows used in operating activities for the three months ended March 31, 2016, primarily resulted from an increase in net earnings of $48.0 million and a decrease in cash flows from inventory of $63.0 million, which were partially offset by an increase in cash flows from accounts receivable of $25.8 million due to increased revenues, a decrease in cash flows from accounts payable of $42.6 million and a decrease in cash flows from accrued expenses of $42.5 million during the three months ended March 31, 2016 as compared to the three months ended March 31, 2015.

Investing Activities

Net cash used in investing activities was $36.3 million for the three months ended March 31, 2016 as compared to $15.3 million for the three months ended March 31, 2015. The increase in net cash used in investing activities for the three months ended March 31, 2016 as compared to the same period in the prior year was primarily the result of higher capital expenditures of $20.6 million. Capital expenditures primarily consisted of $11.4 million for several new store openings and remodels, $7.0 million paid for a corporate property purchase for future development, and $5.5 million paid for equipment costs for increased automation at our European Distribution Center. This was compared to capital expenditures of $14.6 million for the three months ended March 31, 2015, of which $7.6 million consisted of new store openings and remodels and $3.3 million for equipment upgrade costs for our European Distribution Center. Excluding the costs of upgrading our European Distribution Center, we expect our capital expenditures for the remainder of 2016 to be approximately $37 million to $42 million, which includes opening an additional 55 to 65 retail stores and several store remodels. In addition, we are still in the process of upgrading the equipment for our European Distribution Center and estimate the cost of this equipment upgrade to be approximately $27.9 million, of which approximately $19.8 million has been incurred as of March 31, 2016. We expect to complete the upgrade of the European Distribution Center by the second quarter of 2016 and will fund this upgrade and all our capital expenditures through existing cash balances and cash from operations.

Financing Activities

Net cash provided by financing activities was $1.1 million during the three months ended March 31, 2016 compared to net cash used by financing activities of $3.8 million during the three months ended March 31, 2015. The increase in cash provided by financing activities for the three months ended March 31, 2016 as compared to the same period in the prior year is primarily attributable to the increase in contributions from non-controlling interests of a consolidated entity of approximately $2.9 million and decreased cash flows from debt payments of $3.1 million.

Sources of Liquidity

On December 29, 2010, we entered into a master loan and security agreement (the “Master Agreement”), by and between us and Banc of America Leasing & Capital, LLC, and an Equipment Security Note (together with the Master Agreement, the “Loan Documents”), by and among us, Banc of America Leasing & Capital, LLC, and Bank of Utah, as agent (“Agent”). We used the proceeds to refinance certain equipment already purchased and to purchase new equipment for use in our Rancho Belago distribution center. Borrowings made pursuant to the Master Agreement may be in the form of one or more equipment security notes (each a “Note,” and, collectively, the “Notes”) up to a maximum limit of $80.0 million and each for a term of 60 months. The Note entered into on the same date as the Master Agreement represented a borrowing of approximately $39.3 million (the “First Note”). Interest accrued at a fixed rate of 3.54% per annum on the First Note. We made the final payment on the First Note on December 29, 2015.

On June 30, 2011, we entered into another Note for approximately $36.3 million (the “Second Note”). Interest accrued at a fixed rate of 3.19% per annum on the Second Note. As of March 31, 2016 an aggregate of $12.6 million was outstanding on the Second Note, which is included in current installments of long-term borrowings. We paid commitment fees of $0.8 million on the Notes, which were amortized to interest expense over the five-year life of the Notes.

On June 30, 2015, we entered into a $250.0 million loan and security agreement, subject to increase by up to $100 million, (the “Credit Agreement”), with the following lenders: Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association. The Credit Agreement matures on June 30, 2020. The Credit Agreement replaces the credit agreement dated June 30, 2009, which expired on June 30, 2015. The Credit Agreement permits us and certain of our subsidiaries to borrow based on a percentage of eligible accounts receivable plus the sum of (a) the lesser of (i) a percentage of eligible inventory to be sold at wholesale and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at wholesale, plus (b) the lesser of (i) a percentage of the value of eligible inventory to be sold at retail and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at retail, plus (c) the lesser of (i) a percentage of the value of eligible in-transit inventory and (ii) a percentage of the net orderly liquidation value of eligible in-transit inventory. Borrowings bear interest at our election based on (a) LIBOR or (b) the greater of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5% and (iii) LIBOR for a 30-day period plus 1.0%, in each case, plus an applicable margin based on the average daily principal balance of revolving loans available under the Credit Agreement. We pay a monthly unused line of credit fee of 0.25%, payable on the first day of each month in arrears, which is based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of $100.0 million. The Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the Company and its subsidiaries to, among other things, incur debt, grant liens, make certain acquisitions, dispose assets, effect a change of control of the Company, make certain restricted payments including certain dividends and stock redemptions, make certain investments or loans, enter into certain transactions with affiliates and certain prohibited uses of proceeds. The Credit Agreement also requires compliance with a minimum fixed-charge coverage ratio if Availability drops below 10% of the Revolver Commitments (as such terms are defined in the Credit Agreement) until the date when no event of default has existed and Availability has been over 10% for 30 consecutive days. We paid closing and arrangement fees of $1.1 million on this facility, which are being amortized to interest expense over the five-year life of the facility. As of March 31, 2016, there was $0.1 million outstanding under this credit facility, which is classified as short-term borrowings in our condensed consolidated balance sheets.

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

On August 11, 2015, the JV through HF-T1 entered into an amended and restated loan agreement with Bank of America, N.A., as administrative agent and as a lender, and CIT Bank, N.A. (formerly known as OneWest Bank, FSB) and Raymond James Bank, N.A., as lenders (collectively, the "Amended Loan Agreement"), which amends and restates in its entirety the Construction Loan Agreement and the Modification. As of the date of the Amended Loan Agreement, the outstanding principal balance of the Original Loan was $77.3 million. In connection with this refinancing of the Original Loan, the JV, the Company and HF agreed that we would make an additional capital contribution of $38.7 million to the JV for the JV through HF-T1 to use to make a payment on the Original Loan. The payment equaled our 50% share of the outstanding principal balance of the Original Loan. Under the Amended Loan Agreement, the parties agreed that the lenders would loan $70.0 million to HF-T1 (the "New Loan"). The New Loan is being used by the JV through HF-T1 to (i) refinance all amounts owed on the Original Loan after taking into account the payment described above, (ii) pay $0.9 million in accrued interest, loan fees and other closing costs associated with the New Loan and (iii) make a distribution of $31.3 million less the amounts described in clause (ii) to HF. Pursuant to the Amended Loan Agreement, the interest rate on the New Loan is the LIBOR Daily Floating Rate (as defined in the Amended Loan Agreement) plus a margin of 2%. The maturity date of the New Loan is August 12, 2020, which HF-T1 has one option to extend by an additional 24 months, or until August 12, 2022, upon payment of a fee and satisfaction of certain customary conditions. On August 11, 2015, HF-T1 and Bank of America, N.A. entered into an ISDA master agreement (together with the schedule related thereto, the "Swap Agreement") to govern derivative and/or hedging transactions that HF-T1 concurrently entered into with Bank of America, N.A. Pursuant to the Swap Agreement, on August 14, 2015, HF-T1 entered into a confirmation of swap transactions (the "Interest Rate Swap") with Bank of America, N.A. The Interest Rate Swap has an effective date of August 12, 2015 and a maturity date of August 12, 2022, subject to early termination at the option of HF-T1, commencing on August 1, 2020. The Interest Rate Swap fixes the effective interest rate on the New Loan at 4.08% per annum. Pursuant to the terms of the JV, HF Logistics is responsible for the related interest expense on the New Loan, and any amounts related to the Swap Agreement. The full amount of interest expense related to the New Loan has been included in our condensed consolidated statements of equity within non-controlling interests. The Amended Loan Agreement and the Swap Agreement are subject to customary covenants and events of default. Bank of America, N.A. also acts as a lender and syndication agent under our credit agreement dated June 30, 2015. We were in compliance with all debt covenant provisions related to the Amended Loan Agreement as of the date of this quarterly report. We had $69.2 million outstanding under the Amended Loan Agreement, of which $1.5 million and $67.7 million is included in current installments of long-term borrowings and long-term borrowings, respectively, as of March 31, 2016.

As of March 31, 2016, outstanding short-term and long-term borrowings were $83.0 million, of which $12.6 million relates to a note payable for warehouse equipment in our domestic distribution center which is secured by the equipment and $70.3 million relates to loans for our domestic distribution center. We were in compliance with all debt covenants under the Amended Loan Agreement, the Loan Documents and the Credit Agreement as of the date of this quarterly report.

We believe that anticipated cash flows from operations, available borrowings under our credit agreement, existing cash balances and current financing arrangements will be sufficient to provide us with the liquidity necessary to fund our anticipated working capital and capital requirements at least through May 31, 2017. Our future capital requirements will depend on many factors, including, but not limited to, the global economy and the outlook for and pace of sustainable growth in our markets, the levels at which we maintain inventory, sale of excess inventory at discounted prices, the market acceptance of our footwear, the success of our international operations, costs associated with upgrading the equipment in our European Distribution Center, the levels of advertising and marketing required to promote our footwear, the extent to which we invest in new product design and improvements to our existing product design, any potential acquisitions of other brands or companies, and the number and timing of new store openings. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private financing of debt or equity. We have been successful in the past in raising additional funds through financing activities; however, we cannot be assured that additional financing will be available to us or that, if available, it can be obtained on past terms which have been favorable to our stockholders and us. Failure to obtain such financing could delay or prevent our current business plans, which could adversely affect our business, financial condition and results of operations. In addition, if additional capital is raised through the sale of additional equity or convertible securities, dilution to our stockholders could occur.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Management’s Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a detailed discussion of our critical accounting policies, please refer to our annual report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 26, 2016. Our critical accounting policies and estimates did not change materially during the quarter ended March 31, 2016.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016 09”). The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update to the standard is effective for our annual and interim reporting periods beginning January 1, 2017, with early adoption permitted. We are currently evaluating the impact of ASU 2016-09 on our consolidated financial statements; however at the current time we do not know what impact the adoption of ASU 2016-09 will have on our consolidated financial statements, financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The new standard requires lessees to recognize most leases on the balance sheet. This will increase lessees’ reported assets and liabilities. ASU 2016-02 is effective for public business entities for annual and interim reporting periods beginning January 1, 2019. ASU 2016-02 mandates a modified retrospective transition method for all entities. We are currently evaluating the impact of ASU 2016-02 on our condensed consolidated financial statements, financial condition and results of operations.

In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015 17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17), which amends the guidance requiring companies to separate deferred income tax liabilities and assets into current and non-current amounts in a classified statement of financial position. This accounting guidance simplifies the presentation of deferred income taxes, such that deferred tax liabilities and assets are classified as non-current in a classified statement of financial position. ASU 2015-17 will be effective for annual and interim reporting periods beginning January 1, 2017, with early adoption permitted. In the first quarter of 2016, we early adopted ASU 2015-17 on a retrospective basis. For all periods presented, deferred income taxes are reported as “Deferred tax assets” or “Deferred tax liabilities” on the consolidated balance sheets. Prior to adoption, we reported deferred income taxes in either “Deferred tax assets,” “Other assets,” or “Other long-term liabilities” on the consolidated balance sheets, depending on whether the net current deferred income taxes and net noncurrent deferred income taxes were in an asset or liability position, respectively. The change in presentation for the three months ended March 31, 2016 resulted in a reduction of current assets and deferred tax liabilities, and an increase of non-current assets for all periods presented. The adoption of ASU 2015-17 did not have a material impact on our consolidated financial statements, financial condition or results of operations.

In July 2015, the FASB issued ASU No 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). ASU 2015-11 requires that inventory within the scope of this standard be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this update do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. ASU 2015-11 will be effective for our annual and interim reporting periods beginning January 1, 2017, with early adoption permitted. We are currently evaluating the impact of ASU 2015-11 on our condensed consolidated financial statements; however, we do not expect that the adoption of ASU 2015-11 will have a material impact on our consolidated financial statements, financial condition or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, “Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). This guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance simplifies presentation of debt issuance costs but does not address presentation or subsequent measurement of debt issue costs related to line of credit arrangements. In August 2015, the FASB issued ASU 2015-15 “Interest-Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements” which indicates the Securities and Exchange Commission staff would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-03 was effective for our annual and interim reporting periods beginning January 1, 2016 and was adopted on a retrospective basis in the first quarter of 2016. The adoption of ASU 2015-03 did not have a material impact on our consolidated financial statements, financial condition or results of operations.

In February 2015, the FASB issued ASU No. 2015-02, “Amendments to the Consolidation Analysis” (“ASU 2015-02”). ASU 2015-02 amends the consolidation guidance for variable interest entities (“VIEs”) and general partners’ investments in limited partnerships and modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities. The amendment was effective for our annual and interim reporting periods beginning January 1, 2016, and was adopted in the first quarter of fiscal 2016 using a modified retrospective approach. The adoption of ASU 2015-02 did not have a material impact on our consolidated financial statements, financial condition or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, which amended the FASB Accounting Standards Codification (“ASC”) and created a new Topic ASC 606, “Revenue from Contracts with Customers” (“ASC 606”). This amendment prescribes that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The amendment supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition,” and most industry-specific guidance throughout the Industry Topics of the Codification. In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”, which further clarifies the implementation guidance on principal versus agent considerations contained in ASU 2014-09. For annual and interim reporting periods the mandatory adoption date of ASC 606 is January 1, 2018, and there will be two methods of adoption allowed, either a full retrospective adoption or a modified retrospective adoption. We are currently evaluating the impact of ASC 606, but at the current time we do not know what impact the new standard will have on revenue recognized and other accounting decisions in future periods, if any, nor what method of adoption will be selected if the impact is material.

QUARTERLY RESULTS AND SEASONALITY

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

We have experienced, and expect to continue to experience, variability in our net sales and operating results on a quarterly basis. Our domestic customers generally assume responsibility for scheduling pickup and delivery of purchased products. Any delay in scheduling or pickup which is beyond our control could materially negatively impact our net sales and results of operations for any given quarter. We believe the factors which influence this variability include (i) the timing of our introduction of new footwear products, (ii) the level of consumer acceptance of new and existing products, (iii) general economic and industry conditions that affect consumer spending and retail purchasing, (iv) the timing of the placement, cancellation or pickup of customer orders, (v) increases in the number of employees and overhead to support growth, (vi) the timing of expenditures in anticipation of increased sales and customer delivery requirements, (vii) the number and timing of our new retail store openings and (viii) actions by competitors. Because of these and other factors including those referenced or incorporated by reference in our annual report on Form 10-K for the year ended December 31, 2015 under the captions “Item 1A: Risk Factors” and “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the operating results for any particular quarter are not necessarily indicative of the results for the full year.

INFLATION

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

EXCHANGE RATES

Although we currently invoice most of our customers in U.S. dollars, changes in the value of the U.S. dollar versus the local currency in which our products are sold, along with economic and political conditions of such foreign countries, could adversely affect our business, financial condition and results of operations. Purchase prices for our products may be impacted by fluctuations in the exchange rate between the U.S. dollar and the local currencies of the contract manufacturers, which may have the effect of increasing our cost of goods in the future. In addition, the weakening of an international customer’s local currency and banking market may negatively impact such customer’s ability to meet their payment obligations to us. We regularly monitor the creditworthiness of our international customers and make credit decisions based on both prior sales experience with such customers and their current financial performance, as well as overall economic conditions. While we currently believe that our international customers have the ability to meet all of their obligations to us, there can be no assurance that they will continue to be able to meet such obligations. During 2015 and the first three months of 2016, exchange rate fluctuations did not have a material impact on our net sales or inventory costs. We do not engage in hedging activities with respect to such exchange rate risk.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest rate fluctuations. As of March 31, 2016, we have $0.1 million and $69.2 million of outstanding short-term and long-term borrowings, respectively, subject to changes in interest rates. A 200 basis point increase in interest rates would have increased interest expense by less than $0.1 million for the quarter ended March 31, 2016. We do not expect any changes in interest rates to have a material impact on our financial condition or results of operations during the remainder of 2016. The interest rate charged on our secured line of credit facility is based on the prime rate of interest and our domestic distribution center loan is based on the one month LIBOR. Changes in the prime rate of interest or the LIBOR interest rate will have an effect on the interest charged on outstanding balances. As of March 31, 2016, there was $0.1 million outstanding under this credit facility and $69.2 million outstanding on our domestic distribution center loan.

We have and may also enter into derivative financial instruments such as interest rate swaps in order to mitigate our interest rate risk on our long-term debt. We will not enter into derivative transactions for speculative purposes. We had one derivative instrument in place as of March 31, 2016 to hedge the cash flows on our $69.2 million variable rate debt on our domestic distribution center. This instrument was a variable to fixed derivative with a notional amount of $69.2 million at March 31, 2016. Our average receive rate was one month LIBOR and the average pay rate was 2.08%. The rate swap agreement utilized by us effectively modifies our exposure to interest rate risk by converting our floating-rate debt to a fixed rate basis over the life of the loan, thus reducing the impact of interest-rate changes on future interest expense.

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

Assets and liabilities outside the United States are located in regions where we have subsidiaries or joint ventures: Asia, Central America, Europe, North America, and South America. Our investments in foreign subsidiaries and joint ventures with a functional currency other than the U.S. dollar are generally considered long-term. Accordingly, we do not hedge these net investments. The fluctuation of foreign currencies resulted in a cumulative foreign currency translation gain of $5.1 million and a cumulative foreign currency translation loss of $4.4 million for the three months ended March 31, 2016 and 2015, respectively, that are deferred and recorded as a component of accumulated other comprehensive income in stockholders' equity. A 200 basis point reduction in each of these exchange rates at March 31, 2016 would have reduced the values of our net investments by approximately $17.3 million.

ITEM 4. CONTROLS AND PROCEDURES

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

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting during the three months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Personal Injury Lawsuits Involving Shape-ups — As previously reported, on February 20, 2011, Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group were named as defendants in a lawsuit that alleged, among other things, that Shape-ups are defective and unreasonably dangerous, negligently designed and/or manufactured, and do not conform to representations made by our company, and that we failed to provide adequate warnings of alleged risks associated with Shape-ups. In total, we are named as a defendant in 1,141 currently pending cases (some on behalf of multiple plaintiffs) filed in various courts that assert further varying injuries but employ similar legal theories and assert similar claims to the first case, as well as claims for breach of express and implied warranties, loss of consortium, and fraud. Although there are some variations in the relief sought, the plaintiffs generally seek compensatory and/or economic damages, exemplary and/or punitive damages, and attorneys' fees and costs.

On December 19, 2011, the Judicial Panel on Multidistrict Litigation issued an order establishing a multidistrict litigation ("MDL") proceeding in the United States District Court for the Western District of Kentucky entitled In re Skechers Toning Shoe Products Liability Litigation, case no. 11-md-02308-TBR. Since 2011, a total of 1,235 personal injury cases have been filed in or transferred to the MDL proceeding and 414 additional individuals have submitted claims by plaintiff fact sheets. Skechers has resolved 481 personal injury claims in the MDL proceedings, comprised of 90 that were filed as formal actions and 391 that were submitted by plaintiff fact sheets. Skechers has also settled 1,332 claims in principle—1,101 filed cases and 231 claims submitted by plaintiff fact sheets—either directly or pursuant to a global settlement program that has been approved by the claimants' attorneys (described in greater detail below). Further, 42 cases in the MDL proceeding have been dismissed either voluntarily or on motions by Skechers and 38 unfiled claims submitted by plaintiff fact sheet have been abandoned. Between the consummated settlements and cases subject to the settlement program, all but two personal injury cases pending in the MDL have been or are expected to be resolved. On August 6, 2015, the Court entered an order staying all deadlines, including trial, pending further order of the Court.

Skechers U.S.A., Inc., Skechers U.S.A., Inc. II and Skechers Fitness Group also have been named as defendants in a total of 72 personal injury actions filed in various Superior Courts of the State of California that were brought on behalf of 920 individual plaintiffs (360 of whom also submitted MDL court-approved questionnaires for mediation purposes in the MDL proceeding). Of those cases, 68 were originally filed in the Superior Court for the County of Los Angeles (the "LASC cases"). On August 20, 2014, the Judicial Council of California granted a petition by our company to coordinate all personal injury actions filed in California that relate to Shape-ups with the LASC cases (collectively, the "LASC Coordinated Cases"). On October 6, 2014, three cases that had been pending in other counties were transferred to and coordinated with the LASC Coordinated Cases. On April 17, 2015, an additional case was transferred to and coordinated with the LASC Coordinated Cases. Thirty-five actions brought on behalf of a total of 476 plaintiffs have been settled and dismissed. We have also settled in principle an additional 31 actions brought on behalf of 405 plaintiffs pursuant to a global settlement program that has been approved by the plaintiffs' attorneys (described in greater detail below). One single-plaintiff lawsuit and the claims of 28 additional plaintiffs in multi-plaintiff lawsuits have been dismissed entirely, either voluntarily or on motion by us. The claims of 21 additional persons have been dismissed in part, either voluntarily or on motions by us. Thus, taking into account both consummated settlements and cases subject to the settlement program, only five lawsuits on behalf of a total of ten plaintiffs are expected to remain in the LASC Coordinated Cases. Discovery is continuing in those five remaining cases. No trial dates have been set.

In other state courts, a total of 12 personal injury actions (some on behalf of numerous plaintiffs) have been filed that have not been removed to federal court and transferred to the MDL. Ten of those actions have been resolved and dismissed. One of the remaining actions that includes the claims of 65 plaintiffs has been settled in principle pursuant to a global settlement program that has been approved by the plaintiffs' attorneys (described in greater detail below). The last remaining action in a state court other than California was recently filed in Missouri on January 4, 2016 on behalf of a single plaintiff. We have not yet been served in that action.

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

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

Brian Nicklaus v. Skechers USA, Inc. et al. — On July 27, 2015, a former employee named Brian Nicklaus filed an action against our company in the Superior Court of California, County of Los Angeles, Case No. BC589344, alleging age discrimination, wrongful termination, and retaliation, among other causes of actions, and seeking compensatory damages, punitive and exemplary damages and attorneys' fees. Skechers believes it has meritorious defenses, vehemently denies the allegations and intends to defend this case vigorously. Notwithstanding, it is too early to predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position.

adidas America, Inc., et. al v. Skechers USA, Inc. — On September 14, 2015, adidas filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:15-cv-1741, alleging that three Skechers shoe styles (Skechers Onix, Skechers Relaxed Fit Cross Court TR, and Skechers Relaxed Fit – Supernova Style) infringe adidas' trademarks and/or trade dress rights. adidas asserts claims under federal and state law for trademark and trade dress infringement, unfair competition, trademark and trade dress dilution, unfair and deceptive trade practices, and breach of a settlement agreement entered into between the parties in 1995. adidas seeks injunctive relief, disgorgement of Skechers' profits, damages (including treble, enhanced and punitive damages), and attorneys' fees. On September 14, 2015, adidas filed a motion for preliminary injunction in which it sought to preliminarily restrain us from manufacturing, distributing, advertising, selling, or offering for sale any footwear (a) that is confusingly similar to adidas' STAN SMITH Trade Dress, (b) bearing stripes in a manner that is confusingly similar to adidas' Three-Stripe Mark, or (c) under adidas' SUPERNOVA Mark. We opposed adidas' motion. A hearing on adidas' motion was held on December 15, 2015. On February 12, 2016, the Court issued a preliminary injunction prohibiting us from selling two styles from our vast footwear collection and from using the word "Supernova" in connection with a third style. The company has filed an appeal of the Court's preliminary injunction with the United States Court of Appeals for the Ninth Circuit. While it is too early to predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

Nike, Inc., v. Skechers USA, Inc. — On January 4, 2016, Nike filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:16-cv-0007, alleging that certain Skechers shoe designs (Men's Burst, Women's Burst, Women's Flex Appeal, Men's Flex Advantage, Girls' Skech Appeal, and Boys' Flex Advantage) infringe the claims of eight design patents. Nike seeks injunctive relief, damages (including treble damages), pre-judgment and post-judgment interest, attorneys' fees, and costs. On April 11 and 12, 2016, we filed petitions with the United States Patent and Trademark Office's Patent Trial and Appeal Board for inter partes review of five of the eight design patents, seeking to invalidate those patents. On April 22, 2016, the Company filed a motion in the district court seeking to stay the litigation pending the outcome of Skechers' petitions for inter partes review. While it is too early to predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

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

ITEM 1A. RISK FACTORS

The information presented below updates the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2015 and should be read in conjunction with the risk factors and other information disclosed in our 2015 annual report on Form 10-K that could have a material effect on our business, financial condition and results of operations.

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

During the three months ended March 31, 2016 and 2015, our net sales to our five largest customers accounted for approximately 13.8% and 17.1% of total net sales, respectively. No customer accounted for more than 10.0% of our net sales during the three months ended March 31, 2016 and 2015. No customer accounted for more than 10.0% of outstanding accounts receivable balance at March 31, 2016 or December 31, 2015. As of December 31, 2015, one customer accounted for 10.6% of trade receivables. No other customer accounted for more than 10.0% of gross trade receivables as of December 31, 2015. Although we have long-term relationships with many of our customers, our customers do not have a contractual obligation to purchase our products and we cannot be certain that we will be able to retain our existing major customers. Furthermore, the retail industry regularly experiences consolidation, contractions and closings which may result in our loss of customers or our inability to collect accounts receivable of major customers. If we lose a major customer, experience a significant decrease in sales to a major customer or are unable to collect the accounts receivable of a major customer, our business could be harmed.

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

Our footwear products are currently manufactured by independent contract manufacturers. During the three months ended March 31, 2016 and 2015, the top five manufacturers of our manufactured products produced approximately 55.9% and 58.3% of our total purchases, respectively. One manufacturer accounted for 26.4% of total purchases for the three months ended March 31, 2016, and the same manufacturer accounted for 34.4% of total purchases for the same period in 2015. We do not have long-term contracts with manufacturers and we compete with other footwear companies for production facilities. We could experience difficulties with these manufacturers, including reductions in the availability of production capacity, failure to meet our quality control standards, failure to meet production deadlines or increased manufacturing costs. This could result in our customers canceling orders, refusing to accept deliveries or demanding reductions in purchase prices, any of which could have a negative impact on our cash flow and harm our business.

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

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

As of March 31, 2016, our Chairman of the Board and Chief Executive Officer, Robert Greenberg, beneficially owned 53.8% of our outstanding Class B common shares, members of Mr. Greenberg's immediate family beneficially owned an additional 12.2% of our outstanding Class B common shares, and Gil Schwartzberg, trustee of several trusts formed by Mr. Greenberg and his wife for estate planning purposes, beneficially owned 33.3% of our outstanding Class B common shares. The holders of Class A common shares and Class B common shares have identical rights except that holders of Class A common shares are entitled to one vote per share while holders of Class B common shares are entitled to ten votes per share on all matters submitted to a vote of our stockholders. As a result, as of March 31, 2016, Mr. Greenberg beneficially owned 35.4% of the aggregate number of votes eligible to be cast by our stockholders, and together with shares beneficially owned by other members of his immediate family, Mr. Greenberg and his immediate family beneficially owned 44.1% of the aggregate number of votes eligible to be cast by our stockholders, and Mr. Schwartzberg beneficially owned 21.9% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Messrs. Greenberg and Schwartzberg are each able to exert significant influence over all matters requiring approval by our stockholders. Matters that require the approval of our stockholders include the election of directors and the approval of mergers or other business combination transactions. Mr. Greenberg also has significant influence over our management and operations. As a result of such influence, certain transactions are not likely without the approval of Messrs. Greenberg and Schwartzberg, including proxy contests, tender offers, open market purchase programs or other transactions that can give our stockholders the opportunity to realize a premium over the then-prevailing market prices for their shares of our Class A common shares. Because Messrs. Greenberg's and Schwartzberg's interests may differ from the interests of the other stockholders, their ability to significantly influence or substantially control, respectively, actions requiring stockholder approval, which may result in our company taking action that is not in the interests of all stockholders. The differential in the voting rights may also adversely affect the value of our Class A common shares to the extent that investors or any potential future purchaser view the superior voting rights of our Class B common shares to have value.

ITEM 6. EXHIBITS

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

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

SIGNATURES

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

Date: May 6, 2016	SKECHERS U.S.A., INC.
	By: /S/ DAVID WEINBERG
	David Weinberg
	Chief Financial Officer